CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 26, 2008

Iran Sanctions Act of 2008

As ordered reported by the Senate Committee on Finance
on June 18, 2008

SUMMARY

The Iran Sanctions Act of 2008 would authorize appropriations for two programs within the Department of Treasury relating to financial crimes, an exchange program with Iran, and U.S. contributions to the International Atomic Energy Agency (IAEA). The bill also would limit trade with Iran and allow the President to impose sanctions on certain individuals. Finally, the bill would prohibit the United States from entering into a nuclear energy agreement with Russia and would prevent the transfer of certain nuclear materials, components, or technologies to Russia until it has suspended nuclear assistance to Iran.

CBO estimates that implementing the bill would cost $173 million in 2009 and $600 million over the 2009-2013 period, assuming appropriation of the specified and estimated amounts. In addition, CBO and the Joint Committee on Taxation (JCT) estimate that enacting the bill would increase revenues by about $1 million in 2009, $24 million over the 2009-2013 period, and $45 million over the 2009-2018 period. Enacting the legislation also could increase direct spending as a result of additional civil and criminal penalties. CBO estimates this increase would not be significant because of the relatively small number of cases likely to be involved.

The bill contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

The bill would impose private-sector mandates, as defined in UMRA, by prohibiting imports from and exports to Iran. It also could impose mandates by freezing the assets of certain family members and associates of Iranian government officials subject to sanctions as designated by the President; some of those individuals may reside in the United States. Finally, the bill would impose mandates by requiring any financial institution that holds funds and other assets of any designated person to report such information. The cost of complying with those mandates is uncertain because the number of people and the value of assets to be frozen are currently unknown and because CBO lacks information on the value

of lost profits to importers and exporters. Therefore, CBO cannot determine whether the aggregate cost to comply with the mandates in the bill would exceed the annual threshold for private-sector mandates established in UMRA ($136 million in 2008, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the bill is summarized in Table 1. The costs of this legislation fall within budget functions 150 (international affairs), 750 (administration of justice), and 800 (general government).

TABLE 1. ESTIMATED BUDGETARY IMPACT OF THE IRAN SANCTIONS ACT OF 2008[a]

	By Fiscal Year, in Millions of Dollars					
	2009	2010	2011	2012	2013	2009-2013
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Estimated Authorization Level	220	175	181	18	18	612
Estimated Outlays	173	174	179	56	18	600
CHANGES IN REVENUES						
Estimated Revenues	1	3	5	6	9	24

a. In addition to the amounts shown above, implementing the bill would increase revenues by $45 million over the 2009-2018 period (see Table 3).

BASIS OF ESTIMATE

For the purposes of this estimate, CBO assumes that the bill will be enacted before the start of fiscal year 2009 and that spending will follow historical patterns for similar programs.

Spending Subject to Appropriation

The bill would authorize appropriations for specific programs within both the Department of Treasury and the Department of State. In total, CBO estimates that implementing those

programs would cost $600 million over the 2009-2013 period, assuming appropriation of the specified and estimated amounts (see Table 2).

TABLE 2. COMPONENTS OF THE ESTIMATED CHANGES IN SPENDING SUBJECT TO APPROPRIATION UNDER THE IRAN SANCTIONS ACT OF 2008

	By Fiscal Year, in Millions of Dollars					
	2009	2010	2011	2012	2013	2009-2013
Department of Treasury Programs						
Estimated Authorization Level	153	158	163	0	0	474
Estimated Outlays	117	156	161	38	0	472
Exchange Programs						
Estimated Authorization Level	15	15	16	16	16	78
Estimated Outlays	8	13	15	16	16	68
Contribution to the IAEA						
Estimated Authorization Level	50	0	0	0	0	50
Estimated Outlays	46	3	1	0	0	50
Other Reports						
Estimated Authorization Level	2	2	2	2	2	10
Estimated Outlays	2	2	2	2	2	10
Total Changes						
Estimated Authorization Level	220	175	181	18	18	612
Estimated Outlays	173	174	179	56	18	600

Note: IAEA = International Atomic Energy Agency.

Department of Treasury Programs. In total, section 13 would authorize the appropriation of $153 million in 2009 and such sums as may be necessary for 2010 and 2011. (The 2009 authorization consists of $62 million for the Office of Financial Terrorism and Financial Intelligence and $91 million for the Financial Crimes Enforcement Network, both of which are in the Department of Treasury.) Based on information from the Department of Treasury, CBO expects that $153 million, adjusted for inflation, would be sufficient for fiscal years 2010 and 2011. Accordingly, CBO estimates that implementing section 13 would cost $472 million over the 2009-2013 period.

Exchange Programs. Section 14 would authorize the President to implement exchange programs with Iran, particularly for Iranian youth, and would authorize the appropriation of $15 million in 2009 for those purposes. Because the exchange program has a permanent authorization, CBO estimates that the bill also would authorize funding for fiscal years 2010 through 2013 equal to the $15 million authorized for 2009, adjusted for inflation. Thus, CBO estimates that implementing section 14 would cost $68 million over the 2009-2013 period, assuming appropriation of the specified and estimated amounts.

Contribution to the International Atomic Energy Agency (IAEA). Section 16 would authorize the appropriation of $50 million in 2009 for a voluntary contribution to the IAEA. The funds would be used to establish an international nuclear fuel bank that could be used in the event of market disruptions in the supply of reactor fuel. CBO estimates that implementing section 16 would cost $50 million over the 2009-2013 period, assuming appropriation of the specified amount.

Other Reports. Several sections would require the Department of Treasury and the President to provide the Congress with a variety of reports about Iran, including details of investments in Iran by the United States and other countries. The bill also would require a report on international efforts to promote the peaceful uses of nuclear fuel. Based on the costs to prepare similar reports, CBO estimates that those reports would cost about $2 million annually.

Revenues and Direct Spending

Prohibition on Imports. Section 8 would prohibit the importation of any product from Iran. This prohibition would expire five years after enactment of the bill. CBO expects that the aggregate trade volume subject to customs duties would decrease, thus reducing revenues by an estimated $2 million over the 2009-2018 period.

Modified Tax Treatment. Section 11 would modify the income tax treatment of geological and geophysical (G&G) costs for oil companies on which certain economic sanctions for investing in Iran have been imposed. Under the bill, any G&G costs incurred by such a company after 2008 in connection with the exploration and development of oil or gas supplies within the United States would be amortized over 10 years rather than the two- or seven-year periods allowed under current law. This modified treatment would terminate after five years. JCT estimates that the provision would increase revenues by $47 million over the 2009-2018 period.

Civil and Criminal Penalties. The bill would impose civil and criminal penalties for violations of the new sanctions and could result in additional federal revenues. Collections of civil penalties are recorded in the budget as revenues. Collections of criminal penalties also are recorded in the budget as revenues, deposited in the Crime Victims Fund, and later spent without further appropriation. CBO estimates that any additional revenues and direct spending that would result from those penalties would not be significant because of the relatively small number of cases likely to be involved.

TABLE 3. ESTIMATED CHANGES IN REVENUES UNDER THE IRAN SANCTIONS ACT OF 2008

	By Fiscal Year, in Millions of Dollars											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2009-2013	2009-2018
Prohibition on Imports	*	*	*	-1	-1	0	0	0	0	0	-2	-2
Modified Tax Treatment	1	3	5	7	10	10	10	7	1	-7	26	47
Total Changes	1	3	5	6	9	10	10	7	1	-7	24	45

Note: * = revenue loss of less than $500,000.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

The bill contains no intergovernmental mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

The bill contains private-sector mandates, as defined in UMRA. However, CBO cannot determine whether the aggregate cost to comply with those mandates would exceed the annual threshold for private-sector mandates established in UMRA ($136 million in 2008, adjusted annually for inflation).

The bill would impose mandates on certain businesses by banning all imports from and exports to Iran, with the exception of agricultural commodities, medicine, medical devices, certain informational materials, and other humanitarian assistance. According to the

Department of Commerce, in 2007 the United States imported from Iran approximately $173 million in goods, mostly carpets and foodstuffs, and exported $146 million in goods, mostly items that would be excluded from the export ban. The cost of the ban is uncertain because CBO lacks information on the value of lost profits to importers and exporters.

The bill also could impose private-sector mandates by directing the President to freeze the funds and other assets of certain Iranian government officials, and the assets of their family members and associates to whom such officials have transferred assets on or after January 1, 2008. Some of those individuals may reside in the United States. Because the Iranian government officials who would be subject to sanctions have not been named, the cost of that mandate also is uncertain. Finally, the bill also would impose a mandate on financial institutions that hold funds and other assets of persons subject to sanctions by requiring them to report such information. CBO expects the cost to comply with this reporting requirement would be small.

PREVIOUS CBO ESTIMATES

On July 11, 2007, CBO transmitted a cost estimate for a similar bill, H.R. 1400, the Iran Counter-Proliferation Act of 2007, as ordered reported by the House Committee on Foreign Affairs on June 26, 2007. Both bills contain provisions for the exchange programs and Department of Treasury programs discussed above. H.R. 1400, however, would have authorized lower appropriations for those programs. In addition, the earlier bill did not include an authorization for the U.S. contribution to IAEA that is authorized in the Iran Sanctions Act of 2008. H.R. 1400 also contained private-sector mandates by requiring sanctions on certain imports and exports with Iran, but CBO expected that the direct cost of complying with those mandates would fall below UMRA's annual threshold. The differences in CBO's estimate of the costs of the two bills reflect differences in the legislative language.

On February 27, 2007, CBO transmitted a cost estimate for H.R. 957, a bill to amend the Iran Sanctions Act of 1996 to expand and clarify the entities against which sanctions may be imposed, as ordered reported by the House Committee on Foreign Affairs on February 15, 2007. That bill is similar to sections 6 and 9 of this legislation and the estimated costs for those sections are the same. CBO determined that H.R. 957 contained no new mandates as defined in UMRA.

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