CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

August 30, 2012

Family and Business Tax Cut Certainty Act of 2012

As ordered reported by the Senate Committee on Finance on August 2, 2012

SUMMARY

The Family and Business Tax Cut Certainty Act of 2012 would extend certain expiring tax provisions through December 31, 2013; most of the provisions expired on December 31, 2011, but a few are scheduled to expire on December 31, 2012. The staff of the Joint Committee on Taxation (JCT) estimates that enacting the bill would reduce revenues by about $205 billion over the 2013–2022 period. Over 60 percent of that revenue reduction would arise from a two-year extension of relief from the individual alternative minimum tax (AMT). CBO estimates that two provisions would increase outlays by about $0.2 billion over the 10-year period.

On net, JCT and CBO estimate that enacting the bill would increase deficits by about $205 billion over the 2013–2022 period. Pay-as-you-go procedures apply because enacting the legislation would affect revenues and direct spending.

JCT has determined that the provisions of the bill contain no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the bill is shown in the following table. The costs of this legislation fall within budget functions 600 (income security) and 800 (general government).

	By Fiscal Year, in Millions of Dollars											
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2013-2017	2013-2022
CHANGES IN REVENUES												
Title I - Individual Tax Provisions	-110,219	-43,942	8,932	-44	-52	-68	-76	-75	-76	-77	-145,326	-145,695
Title II - Business Tax Extenders	-28,144	-9,943	1,272	361	-37	-466	-1,308	-887	-959	-892	-36,489	-40,998
Title III - Energy Tax Extenders	-4,657	-2,072	-977	-1,243	-1,354	-1,447	-1,492	-1,552	-1,662	-1,692	-10,302	-18,146
Total Revenues	-143,020	-55,957	9,227	-926	-1,443	-1,981	-2,876	-2,514	-2,697	-2,661	-192,117	-204,839
On-budget	-142,955	-55,944	9,227	-926	-1,443	-1,981	-2,876	-2,514	-2,697	-2,661	-192,039	-204,761
Off-budget[a]	-65	-13	0	0	0	0	0	0	0	0	-78	-78
CHANGES IN DIRECT SPENDING												
Title I - Individual Tax Provisions												
Estimated Budget Authority	2	0	0	0	0	0	0	0	0	0	2	2
Estimated Outlays	2	0	0	0	0	0	0	0	0	0	2	2
Title II - Business Tax Extenders												
Estimated Budget Authority	199	23	0	0	0	0	0	0	0	0	222	222
Estimated Outlays	199	23	0	0	0	0	0	0	0	0	222	222
Total, Direct Spending												
Estimated Budget Authority	201	23	0	0	0	0	0	0	0	0	224	224
Estimated Outlays	201	23	0	0	0	0	0	0	0	0	224	224
NET INCREASE OR DECREASE (-) IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES												
Impact on Deficit	143,221	55,980	-9,227	926	1,443	1,981	2,876	2,514	2,697	2,661	192,341	205,063
On-budget	143,156	55,967	-9.227	926	1,443	1,981	2,876	2,514	2,697	2,661	192,263	204,985
Off-budget[a]	65	13	0	0	0	0	0	0	0	0	78	78

Sources: Staff of the Joint Committee on Taxation and the Congressional Budget Office.

Note: Components may not sum to totals because of rounding.

a. Off-budget revenues result from changes in Social Security payroll tax receipts, which are categorized as off-budget.

BASIS OF ESTIMATE

For this estimate, CBO and JCT assume that the legislation will be enacted late in 2012.

Title I: Individual Tax Provisions

Title I would extend relief from the AMT for two years, which JCT estimates would reduce revenues by $132 billion over the 10-year period. Previous AMT relief expired on December 31, 2011. For tax year 2012, the bill would raise the AMT exemption amount to $50,600 for individuals and to $78,750 for married couples filing jointly from the current amounts of $33,750 and $45,000, respectively; it also would allow nonrefundable personal credits against the AMT. The exemption amounts for 2013 would be $51,150 for individuals and $79,850 for married couples.

The bill also would extend for two years the provision of the current tax code that allows individuals to claim state and local sales taxes as an itemized deduction in lieu of state and local income taxes in calculating their individual income tax liability; JCT estimates that the revenue loss from that provision would be $4 billion over the 2013–2022 period. The provision of current tax law allowing individuals to deduct tuition and related expenses also would be extended for two years, lowering revenues by an estimated $4 billion over the 2013–2022 period.

Several other provisions would result in revenue losses that, in total, would come to about $5 billion over the 2013–2022 period. One of those provisions would extend for two years the increased exclusion from taxable income of employer-provided transit benefits and would have both on-budget and off-budget effects. That provision would reduce revenues by an estimated $271 million for the 2013–2022 period, $78 million of which would be off-budget because it would reduce receipts from Social Security payroll taxes.

In total, the provisions of title I would reduce revenues by $146 billion over the 2013–2022 period, JCT estimates.

One provision of title I would extend for one year the ability to disregard tax refunds when determining an individual's eligibility for certain federal assistance programs. That provision would raise outlays by $2 million for 2013 through 2022, CBO estimates.

Title II: Business Tax Extenders

Title II would extend the research and development tax credit two years, which JCT estimates would reduce revenues by $14 billion over the 2013–2022 period. The provision also would provide an alternative simplified calculation method and would modify the rules that apply when ownership of a business changes.

Title II also would extend for two years a provision that allows certain foreign subsidiaries that engage in banking, financial, and related businesses to defer taxation of certain income until it is repatriated to its U.S. parent corporation. The provision is estimated to reduce revenues by $11 billion for 2013 through 2022.

Numerous other provisions with smaller budgetary effects would reduce revenues by another $16 billion over that period. In total, JCT estimates that enacting title II would reduce revenues by $41 billion for the
2013–2022 period.

CBO estimates one provision of title II would increase outlays by $222 million for the 2013–2022 period. That provision would extend for two years certain increases in payments to Puerto Rico and the Virgin Islands relating to excise taxes on rum manufactured in those places as well as rum imported from other countries.

Title III: Energy Tax Extenders

Enacting title III would lower revenues by an estimated $18 billion over the 2013–2022 period. The biggest budgetary effect stems from a provision that would extend for one year, until December 31, 2013, the date by which construction must begin in order for the output of the facility to qualify for the renewable electricity credit; JCT estimates that the provision would reduce revenues by $12 billion over the 2013–2022 period.

Another provision in title III would extend for two years tax credits under section 25C of the Internal Revenue Code for energy-efficient improvements to existing homes. JCT estimates that extension would lower revenues by $2 billion for 2013 through 2022. A third provision of title III would extend for two years the credits for biodiesel and renewable diesel fuels. JCT estimates the extension would lower revenues by $2 billion over the 2013–2022 period. Several other provisions would reduce revenues by another $1 billion over that period.

PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in revenues and outlays that are subject to those pay-as-you-go procedures are shown in the following table. Only on-budget changes to outlays or revenues are subject to pay-as-you-go procedures.

CBO Estimate of Pay-As-You-Go Effects of the Family and Business Tax Cut Certainty Act of 2012, as ordered reported by the Senate Committee on Finance on August 2, 2012

	By Fiscal Year, in Millions of Dollars												
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2012-2017	2012-2022
	NET INCREASE OR DECREASE (-) IN THE DEFICIT												
Statutory Pay-As-You-Go Impact	0	143,156	55,967	-9,227	926	1,443	1,981	2,876	2,514	2,697	2,661	192,263	204,985
Memorandum:													
Changes in Revenues	0	142,955	55,944	-9,227	926	1,443	1,981	2,876	2,514	2,697	2,661	192,039	204,761
Changes in Outlays	0	201	23	0	0	0	0	0	0	0	0	224	224

Sources: Staff of the Joint Committee on Taxation and the Congressional Budget Office.

Note: Components may not sum to totals because of rounding.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

JCT has determined that the provisions of the Family and Business Tax Cut Certainty Act of 2012 contain no intergovernmental or private-sector mandates as defined in UMRA.

ESTIMATE PREPARED BY:

Federal Revenues: Barbara Edwards
Federal Spending: Matthew Pickford and Kathleen FitzGerald

ESTIMATE APPROVED BY:

Frank Sammartino
Assistant Director for Tax Analysis