CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

June 4, 2012

H.R. 1004
Health Flexible Spending Arrangements Improvements Act of 2012

As ordered reported by the House Committee on Ways and Means on May 31, 2012

SUMMARY

H.R. 1004 would amend the Internal Revenue Code to allow up to $500 of unused balances in health flexible spending arrangements (FSAs) to be distributed back to the account holder within seven months of the close of the plan year. The staff of the Joint Committee on Taxation (JCT) estimates that enacting H.R. 1004 would reduce revenues by about $4 billion over the 2012-2022 period. Of that reduction, about $3 billion would result from changes in on-budget revenues, and about $1 billion would result from changes in off-budget revenues (from Social Security payroll taxes, which are categorized as off-budget revenues). Pay-as-you-go procedures apply because enacting the legislation would affect on-budget revenues.

JCT has determined that the bill contains 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 H.R. 1004 is shown in the following table.

	By Fiscal Year, in Millions of Dollars												
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2012-2017	2012-2022
CHANGES IN REVENUES													
Estimated Revenues	0	-261	-380	-383	-395	-407	-419	-432	-445	-459	-471	-1,826	-4,051
On-budget	0	-192	-286	-290	-300	-310	-320	-331	-341	-353	-363	-1,379	-3,086
Off-budget	0	-69	-94	-93	-95	-97	-99	-101	-104	-106	-108	-447	-965

Source: Staff of the Joint Committee on Taxation.

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

BASIS OF ESTIMATE

H.R. 1004 would allow taxpayers to receive distributions of unused amounts from their health FSAs at the end of the plan year. The distribution would be the lesser of $500 or the amount of total contributions less reimbursements for medical expenses during the plan year. Under current law, unused balances in those FSAs at the end of the plan year are generally forfeited by the employee. Under this bill, distributions of unused balances would be included in gross income of the individual and would become a tax deductible compensation expense for the employer. By lowering the risk to the employee of losing contributed amounts, it is expected that the bill would result in increases in the amounts contributed to health FSAs, which provide tax-favored treatment for medical expenses. JCT estimates that enacting H.R. 1004 would reduce on-budget revenues by about $3 billion and reduce off-budget revenues by about $1 billion from 2013 through 2022, thereby increasing federal budget deficits by about $4 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 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 for H.R. 1004, as ordered reported by the House Committee on Ways and Means on May 31, 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 IN THE ON-BUDGET DEFICIT													
Statutory Pay-As-You-Go Impact	0	192	286	290	300	310	320	331	341	353	363	1,379	3,086

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

JCT has determined that the bill contains no intergovernmental or private-sector mandates as defined in UMRA.

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