



December 9, 2011

Honorable Dave Camp
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

The Congressional Budget Office (CBO) and the staff of the Joint Committee on Taxation (JCT) have reviewed H.R. 3630, the Middle Class Tax Relief and Job Creation Act of 2011, as introduced on December 9, 2011. The attached tables provide CBO's and JCT's estimates of the legislation's budgetary effects.

Table 1 presents a summary of the expected impact on deficits from changes in revenues and direct spending, along with estimated changes from reductions in existing caps on discretionary funding (those effects are subject to future appropriation actions).

According to CBO's and JCT's estimates, enacting H.R. 3630 would change revenues and direct spending to produce increases in the deficit of \$166.8 billion in fiscal year 2012 and \$25.3 billion over the 2012-2021 period.

Relative to discretionary spending projected under current law and assuming compliance with the current-law caps on discretionary appropriations for the next 10 years, CBO estimates that the proposed changes in discretionary funding caps under H.R. 3630 would lead to a reduction in projected discretionary spending of \$26.2 billion over the 2012-2021 period (as shown in the bottom panel of Table 1).

Table 2 provides detail on the changes in revenues and direct spending for the major provisions of the legislation. Enacting the bill would reduce revenues by \$88.3 billion over the 2012-2021 period and reduce direct spending by \$63.1 billion over that period, according to CBO's and JCT's estimates. Those changes are the budgetary effects that would be expected to occur directly from enactment of H.R. 3630, while proposed changes in spending subject to appropriation are contingent upon enactment of future legislation.

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Table 3 shows the estimated impact of H.R. 3630 under the Statutory Pay-As-You-Go Act of 2010 (S-PAYGO Act). Under that act, budget-reporting and enforcement procedures apply to changes in the on-budget deficit from changes in revenues and direct spending. Those procedures call for automatic reductions in certain direct spending programs if there are positive balances in either the 5-year or 10-year compilations of pay-as-you-go budgetary effects.

Following the specifications in the S-PAYGO Act, which allows for an adjustment to reflect the continuation of current rates on the payments to physicians under Medicare, CBO estimates that on-budget changes in direct spending and revenues subject to the pay-as-you-go considerations would increase deficits by \$136.6 billion over the 2012-2016 period and would reduce deficits by \$4.0 billion over the 2012-2021 period.

H.R. 3630 would direct the Office of Management and Budget to exclude from its scorecard of balances under the S-PAYGO Act any estimated deficit reduction for the 10-year period spanning fiscal years 2012 through 2021. The bill also specifies that the estimate submitted for printing in the Congressional Record should reflect three types of effects that are not included under the S-PAYGO Act: off-budget effects, projected changes in discretionary spending from changes in the caps on new appropriations, and estimated changes in net income of the National Flood Insurance Program (but those adjustments are not included in Table 3 because the provision has not been enacted into law).

If you wish further details on this estimate, we will be pleased to provide them.

Sincerely,

for 

Douglas W. Elmendorf
Director

Enclosure

cc: Honorable Sander M. Levin
Ranking Member

Table 1. Budgetary Effects of H.R. 3630, the Middle Class Tax Relief and Job Creation Act of 2011, as Introduced on December 9, 2011

(Millions of dollars, by fiscal year)

12/9/2011

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-2016	2012-2021
CHANGES IN REVENUES												
TOTAL CHANGES IN REVENUES^a	-130,060	-46,650	-11,275	13,292	40,564	13,696	9,302	3,497	11,916	7,373	-134,129	-88,346
<i>On-budget revenues</i>	-39,143	-16,344	-11,270	13,302	40,582	13,717	9,325	3,522	11,942	7,401	-12,873	33,034
<i>Off-budget revenues^b</i>	-90,917	-30,306	-5	-11	-18	-21	-23	-25	-26	-28	-121,257	-121,380
CHANGES IN DIRECT SPENDING												
TOTAL CHANGES IN DIRECT SPENDING												
Estimated Budget Authority	36,839	24,915	-1,936	-12,494	-13,041	-15,491	-16,940	-17,368	-19,939	-27,481	34,283	-62,936
Estimated Outlays ^c	36,699	24,915	-1,931	-12,485	-12,991	-15,451	-16,919	-17,363	-20,043	-27,520	34,207	-63,089
<i>On-budget outlays^b</i>	127,616	55,221	-1,931	-12,273	-12,586	-14,914	-16,372	-16,846	-19,547	-27,044	156,047	61,324
<i>Off-budget outlays^b</i>	-90,917	-30,306	0	-212	-405	-537	-547	-517	-496	-476	-121,840	-124,413
NET INCREASE OR DECREASE (-) IN DEFICITS FROM REVENUES AND DIRECT SPENDING												
NET CHANGES IN DEFICITS	166,759	71,565	9,344	-25,776	-53,555	-29,147	-26,222	-20,861	-31,958	-34,893	168,337	25,257
<i>On-budget deficit change</i>	166,759	71,565	9,339	-25,575	-53,167	-28,631	-25,698	-20,368	-31,488	-34,445	168,920	28,290
<i>Off-budget deficit change^b</i>	0	0	5	-201	-387	-516	-524	-492	-470	-448	-583	-3,033
CHANGES IN SPENDING SUBJECT TO APPROPRIATION FROM CHANGES IN CAPS ON DISCRETIONARY FUNDING												
TOTAL CHANGES IN DISCRETIONARY SPENDING												
Estimated Authorization Level	0	-2,000	-3,000	-3,000	-3,000	-3,000	-3,000	-4,000	-4,000	-4,000	-11,000	-29,000
Estimated Outlays	0	-1,214	-2,279	-2,765	-2,992	-3,160	-3,276	-3,386	-3,506	-3,632	-9,250	-26,210

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

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

- For revenues, positive numbers indicate a decrease in the deficit; negative numbers indicate an increase in the deficit.
- The bill would modify and extend the payroll-tax holiday for one year, causing a reduction in off-budget revenues credited to the Social Security trust funds. The bill also would transfer from the Treasury to the Social Security trust funds an amount equal to that off-budget revenue loss. The off-budget receipt would offset the lost revenue and, thus, section 2001 would have no net off-budget effect. (Other sections in the bill would have an off-budget effect.)
- Title III of the bill would raise premiums for certain subsidized flood insurance policies, increasing net income to the National Flood Insurance Program by \$4.9 billion. However, because many policies would continue to be subsidized and the program would continue to face significant interest costs for borrowing over the past decade, CBO expects that additional receipts collected under this legislation would be spent to cover future program shortfalls, resulting in no net effect on the budget over the 2012-2021 period.

Table 2. Effects on Revenues and Direct Spending of H.R. 3630, the Middle Class Tax Relief and Job Creation Act of 2011, as Introduced on December 9, 2011

(Millions of dollars, by fiscal year)

12/9/2011

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-2016	2012-2021
CHANGES IN REVENUES												
Extension of 100 Percent Expensing	-38,299	-17,648	15,174	10,730	8,430	6,564	4,181	2,523	1,397	944	-21,613	-6,005
Election to Accelerate AMT Credits	-1,526	-801	32	32	42	58	64	64	66	69	-2,221	-1,899
Extension of Payroll Tax Reduction (On-budget)	919	670	0	0	0	0	0	0	0	0	1,589	1,589
Extension of Payroll Tax Reduction (Off-budget)	-90,917	-30,306	0	0	0	0	0	0	0	0	-121,223	-121,223
Unemployment Compensation	0	24	78	78	58	21	13	-7	-12	-12	238	241
Tax on Unemployment Benefits for High Earners	-2	-6	-8	-11	-13	-13	-14	-14	-13	-14	-40	-107
Federal Employee Retirement Contributions	0	1,182	2,366	3,497	4,007	4,338	4,701	5,101	5,511	5,950	11,051	36,652
Health Care Provisions (on-budget)	0	0	82	172	278	340	380	410	438	464	532	2,563
Health Care Provisions (off-budget)	0	0	-5	-11	-18	-21	-23	-25	-26	-28	-34	-157
Repeal of Corporate Tax Timing Shift	-235	235	-28,993	-1,196	27,780	2,409	0	-4,555	4,555	0	-2,409	0
Total Changes in Revenues^a	-130,060	-46,650	-11,275	13,292	40,564	13,696	9,302	3,497	11,916	7,373	-134,129	-88,346
<i>On-budget revenues</i>	-39,143	-16,344	-11,270	13,302	40,582	13,717	9,325	3,522	11,942	7,401	-12,873	33,034
<i>Off-budget revenues^b</i>	-90,917	-30,306	-5	-11	-18	-21	-23	-25	-26	-28	-121,257	-121,380
CHANGES IN DIRECT SPENDING (Outlays)												
Title II - Extension of Certain Expiring Provisions and Related Measures												
Extension of Payroll Tax Reduction (On-budget) ^b	90,917	30,306	0	0	0	0	0	0	0	0	121,223	121,223
Extension of Payroll Tax Reduction (Off-budget) ^b	-90,917	-30,306	0	0	0	0	0	0	0	0	-121,223	-121,223
Unemployment Compensation	23,620	10,705	-15	-15	-15	-15	-15	-15	-15	-15	34,280	34,205
Physician Payment Update	11,340	19,280	5,660	-1,350	40	810	1,040	940	680	410	34,970	38,850
Other Medicare Extensions and Health Provisions	1,484	1,037	-2,056	-3,429	-4,395	-4,770	-5,084	-5,392	-5,685	-10,078	-7,359	-38,368
Subtotal, Title II	36,444	31,022	3,589	-4,794	-4,370	-3,975	-4,059	-4,467	-5,020	-9,683	61,891	34,687
Title III - Flood Insurance Reform^c	0	-70	-150	220	0	0	0	0	0	0	0	0
Title IV - Auction and Use of Spectrum	1,420	1,460	-445	-3,231	-3,895	-4,395	-3,444	-2,590	-726	-641	-4,691	-16,487
Title V - Offsets												
Fannie Mae and Freddie Mac Guarantee Fees	-1,300	-4,600	-4,000	-3,500	-3,300	-3,300	-3,700	-3,900	-4,000	-4,100	-16,700	-35,700
Social Security Provisions Related to												
Noncovered Employment (off-budget)	0	0	0	-212	-405	-537	-547	-517	-496	-476	-617	-3,190
Require Social Security Number for Child Tax Credit	0	-2,606	-823	-820	-832	-848	-856	-864	-872	-872	-5,081	-9,393
Ending Unemployment Compensation and Supplemental												
Nutrition Assistance for Millionaires	-15	-14	-12	-12	-11	-12	-12	-12	-13	-14	-64	-127
Federal Civilian Employees	0	-25	-90	-136	-178	-214	-243	-267	-300	-340	-429	-1,793
Health Care Provisions	0	0	0	0	0	-2,170	-4,058	-4,746	-8,616	-11,394	0	-30,984
Subtotal, Title V	-1,315	-7,245	-4,925	-4,680	-4,726	-7,081	-9,416	-10,306	-14,297	-17,196	-22,891	-81,187
Title VI - Miscellaneous Provisions (Repeal Timing Shift for Merchandise Processing Fees)	150	-252	0	0	0	0	0	0	0	0	-102	-102
Total Changes in Direct Spending	36,699	24,915	-1,931	-12,485	-12,991	-15,451	-16,919	-17,363	-20,043	-27,520	34,207	-63,089
<i>On-budget outlays</i>	127,616	55,221	-1,931	-12,273	-12,586	-14,914	-16,372	-16,846	-19,547	-27,044	156,047	61,324
<i>Off-budget outlays</i>	-90,917	-30,306	0	-212	-405	-537	-547	-517	-496	-476	-121,840	-124,413

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

Note: AMT = Alternative Minimum Tax; components may not sum to totals because of rounding.

- For revenues, positive numbers indicate a decrease in the deficit; negative numbers indicate an increase in the deficit.
- The bill would modify and extend the payroll-tax holiday for one year, causing a reduction in off-budget revenues credited to the Social Security trust funds. The bill also would transfer from the Treasury to the Social Security trust funds an amount equal to that off-budget revenue loss. The off-budget receipt would offset the lost revenue and, thus, section 2001 would have no net off-budget effect. (Other sections in the bill would have an off-budget effect.)
- Title III would raise premiums for certain subsidized flood insurance policies, increasing net income to the National Flood Insurance Program by \$4.9 billion. However, because many policies would continue to be subsidized and the program would continue to face significant interest costs for borrowing over the past decade, CBO expects that additional receipts collected under this legislation would be spent to cover future program shortfalls, resulting in no net effect on the budget over the 2012-2021 period.

Table 3. CBO Estimate of the Statutory Pay-As-You-Go Effects of H.R. 3630, the Middle Class Tax Relief and Job Creation Act of 2011, as Introduced on December 9, 2011

(Millions of dollars, by fiscal year)

12/9/2011

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012- 2016	2012- 2021
NET INCREASE OR DECREASE (-) IN THE ON-BUDGET DEFICIT												
Total On-Budget Changes	166,759	71,565	9,339	-25,575	-53,167	-28,631	-25,698	-20,368	-31,488	-34,445	168,920	28,290
Less:												
Current-Policy Adjustment for Medicare Payments to Physicians ^a	<u>10,160</u>	<u>17,080</u>	<u>5,040</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>32,280</u>	<u>32,280</u>
Statutory Pay-As-You-Go Impact	156,599	54,485	4,299	-25,575	-53,167	-28,631	-25,698	-20,368	-31,488	-34,445	136,640	-3,990
Memorandum:												
Changes in Outlays ^a	117,456	38,141	-6,971	-12,273	-12,586	-14,914	-16,372	-16,846	-19,547	-27,044	123,767	29,044
Changes in Revenues	-39,143	-16,344	-11,270	13,302	40,582	13,717	9,325	3,522	11,942	7,401	-12,873	33,034

Sources: Congressional Budget Office and Joint Committee on Taxation.

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

a. Section 7(c) of the Statutory Pay-As-You-Go Act of 2010 provides for current-policy adjustments related to Medicare payments to physicians.