CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 29, 2015

H.R. 1891
A bill to extend the African Growth and Opportunity Act, the Generalized System of Preferences, the preferential duty treatment program for Haiti, and for other purposes

As ordered reported by the House Committee on Ways and Means on April 23, 2015

SUMMARY

H.R. 1891 would extend the reduced tariff rates currently imposed on products imported under the African Growth and Opportunity Act (AGOA), the Generalized System of Preferences (GSP), and the Haitian Hemispheric Opportunity through Partnership Encouragement Act. The bill also would shift some corporate income tax payments between fiscal years and increase the rate of certain fees collected by Customs and Border Protection (CBP) as well as extend the authority to collect those fees.

CBO and the staff of the Joint Committee on Taxation (JCT) estimate that enacting H.R. 1891 would reduce both direct spending and revenues by about $5.8 billion over the 2015-2025 period—resulting in a reduction in deficits over the 11-year period of $16 million. Pay-as-you-go procedures apply because enacting the legislation would affect direct spending and revenues. CBO estimates that certain Congressional reports called for under H.R. 1891 would cost $1 million over the 2015-2020 period, assuming availability of appropriated funds.

CBO has determined that the nontax provisions of the bill contain no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments. JCT has determined that the tax provisions of the bill contain no intergovernmental or private-sector mandates.

CBO has determined that the nontax provisions of H.R. 1891 contain private-sector mandates on entities required to pay merchandise processing fees. CBO estimates the aggregate cost of the mandates would exceed the annual threshold established in UMRA for private-sector mandates ($154 million in 2015, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effects of H.R. 1891 are shown in the following table. The costs of this legislation fall within budget functions 750 (administration of justice) and 370 (advancement of commerce).

	By Fiscal Year, in Millions of Dollars												
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2015-2020	2015-2025
CHANGES IN DIRECT SPENDING													
Estimated Budget Authority	0	0	0	0	0	0	-162	-873	-916	-962	-2,948	0	-5,861
Estimated Outlays	0	0	0	0	0	0	-162	-873	-916	-962	-2,948	0	-5,861
CHANGES IN REVENUES													
Extension of African Growth and Opportunity Act	*	-121	-130	-238	-284	-298	-312	-329	-345	-365	-387	-1,071	-2,809
Extension of General System of Preferences	-1,051	-627	-665	-173	0	0	0	0	0	0	0	-2,516	-2,516
Extension of Preferential Duty Treatment for Haiti	0	0	0	0	-12	-17	-75	-97	-101	-106	-112	-29	-520
Shift in Payment of Corporate Estimated Tax	0	0	0	0	0	3,781	-3,781	0	0	0	0	3,781	0
Total Changes in Revenues	-1,051	-748	-795	-411	-296	3,466	-4,168	-426	-446	-471	-499	165	-5,845
NET INCREASE OR DECREASE (-) IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES													
Impact on Deficit	1,051	748	795	411	296	-3,466	4,006	-447	-470	-491	-2,449	-165	-16

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

Notes: This estimate assumes enactment of H.R. 1891 by July 1, 2015; * = between -$500,000 and zero.

For direct spending, negative numbers indicate a decrease in outlays; for revenues, negative numbers indicate a reduction in revenues.

Components may not sum to totals because of rounding.

CBO estimates that implementing H.R. 1891 would cost about $1 million over the 2015-2020 period, assuming availability of appropriated funds, to prepare Congressional reports.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 1891 will be enacted by July 1, 2015.

Direct Spending

Under current law, the authority to charge merchandise processing fees collected by Customs and Border Protection will expire after September 30, 2024. The bill would extend the authority to collect those fees through July 7, 2025. The bill also would raise the rate of the merchandise processing fee from 0.21 percent to 0.3464 percent of the value of goods entering the U.S. for the period beginning July 1, 2021, and ending June 30, 2025. CBO estimates those actions would increase offsetting receipts (certain collections that are treated as reductions in direct spending) by about $5.9 billion over the 2021-2025 period. To project collections of merchandise processing fees, CBO assumes that the fees collected in future years will grow at the same rate seen in recent years—about 5 percent. In 2014 collections from the merchandise processing fee totaled $2.3 billion. By 2024 CBO estimates those collections will total about $2.7 billion under current law. CBO expects that the proposed increase in the fee rate would have a very minor effect on the value of goods entering the U.S.

Revenues

CBO's estimates of the revenue effects of proposals to lower tariff rates charged on imports from certain countries or on certain goods are based on historical data about the value and volume of those goods entering the United States. Using that historical data, CBO develops a baseline of future collections that accounts for expected growth in trade over the next ten years. To estimate tariff collections under the proposed legislation, CBO considers both general growth in trade as well as changes in demand that are likely to result from lower rates. The changes in revenues for each of the programs discussed below reflect the difference between the baseline estimate of collections for each program using effective tariff rates under current law and projected collections under each proposal using the proposed duty rate, net of payroll and income tax offsets. CBO assumes that the lower tariffs under the legislation would result in an increase in overall imports, as well as a diversion of imports from countries that would not be eligible for lower tariffs to those that would.

Extension of African Growth and Opportunity Act. Under AGOA the U.S. provides nonreciprocal tariff reductions to roughly 40 eligible sub-Saharan countries for certain goods that the U.S. imports. The bill would extend the authority for reduced tariffs under AGOA, which are set to expire at the end of September 30, 2015, through September 30, 2025. The bill also would extend the special rule that may apply to certain lesser-developed sub-Saharan countries under AGOA. The special rule also expires on September 30, 2015. Under this rule a lesser-developed country may export duty-free to the United States any apparel good that is assembled within the country, regardless of the origin of the fabric or yarn. In addition, the bill would revise the rules of origin for AGOA beneficiary countries under GSP to expand the value of products that would qualify for duty free treatment.

CBO estimates that extending and amending AGOA would reduce revenues by $2.8 billion over the 2015-2025 period, net of payroll and income tax offsets. That estimate includes the revenue loss after December 31, 2017, from imports that are eligible for duty free treatment under GSP (which the bill extends through December 31, 2017).

Extension of General System of Preferences. Under the GSP the U.S. affords nonreciprocal tariff reductions to approximately 130 developing countries. Generally, duty-free treatment of imported goods from GSP-designated developing countries is extended to products that are predominately produced only in those countries. The bill would renew GSP, which expired on July 31, 2013, and continue its authority through December 31, 2017. Under the bill, importers or exporters that would have otherwise qualified for reduced tariffs under GSP could obtain refunds for tariffs paid after July 30, 2013, that would not have been payable had GSP been in effect. CBO estimates that renewing GSP would reduce revenues by $2.5 billion over the 2015-2025 period, net of payroll and income tax offsets. This estimate includes the cost, through December 31, 2017, of imports that are eligible for duty free treatment under the African Growth Opportunity Act (which expires in September 2015).

Extension of Preferential Duty Treatment for Haiti. Under the Haitian Hemispheric Opportunity through Partnership Encouragement Act, certain textile and apparel goods imported to the U.S. from Haiti are eligible for duty-free treatment if restrictions regarding the source of the yarns and fabrics used in the imported goods are met. Portions of this program will begin to expire in 2016; H.R. 1891 would extend this duty-free status through 2025. CBO estimates that enacting this provision would reduce revenues by $520 million over the 2015-2025 period, net of payroll and income tax offsets.

Shift in Payment of Corporate Estimated Tax. H.R. 1891 would shift payments of corporate estimated taxes between fiscal years 2020 and 2021. For corporations with at least $1 billion in assets, the bill would increase the portion of corporate estimated payments due from July through September in 2020. The staff of JCT estimates that those changes would increase revenues by $3.8 billion in 2020 and reduce revenues by the same amount in 2021.

Spending Subject to Appropriation

H.R. 1891 would require the United States Trade Representative to prepare a series of reports on trade activities with sub-Saharan African countries and their interest in entering into free trade agreements with the United States. Based on the cost of similar reports, CBO estimates that the costs to prepare that series would be significantly less than $500,000 annually, and would total about $1 million over the 2015-20120 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 outlays and revenues that are subject to those pay-as-you-go procedures are shown in the following table.

CBO Estimate of Pay-As-You-Go Effects for H.R. 1891, as ordered reported by the House Committee on Ways and Means on April 23, 2015

	By Fiscal Year, in Millions of Dollars												
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2015-2020	2015-2025
NET INCREASE OR DECREASE (-) IN THE DEFICIT													
Statutory Pay-As-You-Go Impact	1,051	748	795	411	296	-3,466	4,006	-447	-470	-491	-2,449	-165	-16
Memorandum:													
Changes in Outlays	0	0	0	0	0	0	-162	-873	-916	-962	-2,948	0	-5,861
Changes in Revenues	-1,051	-748	-795	-411	-296	3,466	-4,168	-426	-446	-471	-499	165	-5,845

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

CBO has determined that the nontax provisions of the bill contain no intergovernmental mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments. JCT has determined that the tax provisions of the bill contain no intergovernmental mandates.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

CBO has determined that the nontax provisions of H.R. 1891 would impose private-sector mandates, as defined in UMRA, on entities required to pay merchandise processing fees. The bill would extend those fees through July 7, 2025; the fee rates would increase beginning July 1, 2021, and ending June 30, 2025. Some of the entities that are required to pay merchandise processing fees may also accrue savings related to the preferential tariff treatment accorded to certain products that would be extended under the bill. However, CBO estimates that the aggregate costs of the mandates would exceed the annual threshold established in UMRA for private-sector mandates ($154 million in 2015, adjusted annually for inflation).

JCT has determined that the tax provisions of H.R. 1891 contain no private-sector mandates as defined in UMRA.

PREVIOUS CBO ESTIMATE

On April 17, 205, CBO transmitted an estimate of the effects on direct spending and revenues of H.R. 1891, as introduced by the House Committee on Ways and Means on April 17, 2015. Estimated costs for both versions of H.R. 1891 are the same.

ESTIMATE PREPARED BY:

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