**CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE**

September 27, 2016

H.R. 5204
Stop Taxing Death and Disability Act

As ordered reported by the House Committee on Ways and Means on September 21, 2016

SUMMARY

H.R. 5204 would amend the Internal Revenue Code to exclude from gross income any amount discharged from a federal student or private education loan because of the death or disability of the borrower. In addition, the bill would amend the Higher Education Act (HEA) to allow for the discharge of any remaining balance that parents owe on an outstanding federal loan borrowed on behalf of certain students who become disabled.

The staff of the Joint Committee on Taxation (JCT) and CBO estimate that enacting H.R. 5204 would increase federal deficits by $88 million over the 2017-2026 period. JCT estimates that revenues would decrease by $69 million and CBO estimates direct spending would increase by $19 million.

Pay-as-you-go procedures apply because enacting the legislation would affect direct spending and revenues.

CBO and JCT estimate that enacting the legislation would not increase net direct spending or on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2027.

CBO and JCT have determined that H.R. 5204 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 effect of H.R. 5204 is shown in the following table. The costs of this legislation fall within budget function 500 (education, training, employment, and social services).

	By Fiscal Year, in Millions of Dollars											
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2017-2021	2017-2026
INCREASES IN DIRECT SPENDING												
Estimated Budget Authority	10	1	1	1	1	1	1	1	1	1	14	19
Estimated Outlays	10	1	1	1	1	1	1	1	1	1	14	19
DECREASES (-) IN REVENUES												
Estimated Revenues	-6	-7	-7	-7	-7	-7	-7	-7	-8	-7	-33	-69
NET INCREASE IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES												
Impact on Deficit	16	8	8	8	8	8	8	8	9	8	47	88

Notes: Direct spending effects reflect estimated changes in costs to student loans using the Federal Credit Reform Act; estimates using fair-value procedures would result in the same estimate.

Numbers may not add up to totals because of rounding.

BASIS OF ESTIMATE

For purposes of this estimate, CBO assumes that H.R. 5204 will be enacted before the end of calendar year 2016.

Direct Spending

PLUS loans are federal education loans for parents of dependent students that can be used to cover the cost of education expenses not covered by other financial aid. Under current law, a PLUS loan is discharged upon the student's death but is not discharged if the student becomes disabled. H.R. 5204 would amend the HEA to allow for the discharge of any remaining balance on an outstanding PLUS loan if the student for whom the parent borrowed met the requirements for a discharge because of total and permanent disability as defined by the Department of Education.

Federal Credit Reform Act Estimating Procedures. As required under the Federal Credit Reform Act of 1990 (FCRA), most of the costs of the federal student loan programs are estimated on a net-present-value basis. Under FCRA, the present value of all loan-related cash flows is calculated by discounting those expected cash flows to the year of disbursement, using the rates for comparable maturities on U.S. Treasury borrowing. (For example, the cash flow for a one-year loan is discounted using the Treasury rate for a one-year zero-coupon note.) The estimated changes to the costs of loans originated prior to enactment of legislation are shown in the year the bill is enacted.

CBO analyzed data from the Social Security Administration about recipients of Social Security Disability Insurance and data from the Department of Education on federal student and PLUS loans. Based on that analysis, CBO projects that fewer than 3,000 outstanding PLUS loans and fewer than 300 PLUS loans that we estimate will be originated in each of fiscal years 2017 through 2026 would be discharged under this provision. Based on the estimated cash flows for those loans, CBO estimates that enacting the bill would increase direct spending by $10 million in 2017 and by $19 million over the 2017-2026 period.

Fair-Value Estimating Procedures. Section 3105 of the Conference Report of the Concurrent Resolution on the Budget for Fiscal Year 2016 (S. Con. Res. 11) requires that any CBO cost estimate of a student loan provision under FCRA procedures include an additional estimate of a bill's costs measured on a fair-value basis.

Under the fair-value approach, estimates are based on market values—market prices when those prices are available or approximations of market prices when directly comparable figures are unavailable—which more fully account for the cost of the risk the government takes on. To account for this risk, CBO discounts the same projected cash flows as under FCRA but uses a market-based discount rate.[1]

Using the fair-value approach, CBO estimates that the increase in direct spending would be slightly less than under FCRA procedures, but would still total $19 million over the 2017-2026 period.

Revenues

H.R. 5204 would amend the Internal Revenue Code to exclude from gross income the amount of a federal student or private education loan discharged because of the death or disability of the student. JCT estimates that this provision would decrease revenues by $6 million in 2017 and by $69 million over the 2017-2026 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.

1. For more details on fair-value accounting, see www.cbo.gov/publication/45383 and www.cbo.gov/publication/43027.

CBO Estimate of Pay-As-You-Go Effects for H.R. 5204 as ordered reported by the House Committee on Ways and Means on September 21, 2016

	By Fiscal Year, in Millions of Dollars												
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2016-2021	2016-2026
NET INCREASE OR DECREASE (-) IN THE ON-BUDGET DEFICIT													
Statutory Pay-As-You-Go Impact	0	16	8	8	8	8	8	8	8	9	8	47	88
Memorandum:													
Changes in Outlays	0	10	1	1	1	1	1	1	1	1	1	14	19
Changes in Revenues	0	-6	-7	-7	-7	-7	-7	-7	-7	-8	-7	-33	-69

Note: Numbers may not add up to totals because of rounding.

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO and JCT estimate that enacting the legislation would not increase net direct spending or on-budget deficits by more than $5 billion in any of the four consecutive 10-year periods beginning in 2027.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

CBO and JCT have determined that H.R. 5204 contains no intergovernmental or private-sector mandates as defined in UMRA.

ESTIMATE PREPARED BY:

Federal Costs: Justin Humphrey
Federal Revenues: The staff of the Joint Committee on Taxation
Impact on State, Local, and Tribal Governments: Zachary Byrum
Impact on the Private Sector: Paige Piper/Bach

ESTIMATE APPROVED BY:

H. Samuel Papenfuss
Deputy Assistant Director for Budget Analysis