CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

November 7, 1997

H.R. 1953
An act to clarify state authority to tax compensation paid to certain employees

As ordered reported by the Senate Committee on Governmental Affairs on November 5, 1997

CBO estimates that enacting this legislation would have no impact on the federal budget. Because the act would not affect direct spending or receipts, pay-as-you-go procedures would not apply. H.R. 1953 would impose an intergovernmental mandate because it would limit the ability of certain states to collect income taxes from some individuals working in those states. CBO estimates that the costs of this mandate would total less than $5 million annually and thus would not exceed the threshold established in the Unfunded Mandates Reform Act of 1995 (UMRA). H.R. 1953 contains no new private-sector mandates as defined in UMRA.

Federal employees in three specific federal facilities would be affected by this bill: Columbia River Dam (Washington-Oregon), Gavins Point Dam (South Dakota-Nebraska), and Fort Campbell military base (Tennessee-Kentucky). In each of these facilities, a number of federal employees work in one state but live in a neighboring state that imposes no income taxes. Since their resident state does not impose an income tax, they are unable to claim any income tax credit for taxes paid to another state. H.R. 1953 would allow each state to tax incomes of federal employees working at one of the three facilities only if they are residents of that state. This limitation on taxing authority would be an intergovernmental mandate as defined in UMRA. About 2,350 employees at the three facilities would be affected, and the relevant state income tax rates range from 2 percent to 9 percent. Assuming an average annual salary of $30,000, CBO estimates that the costs of this mandate would be less than $5 million annually.

The CBO staff contacts for this estimate are Mark Grabowicz (for federal costs), and Leo Lex (for the state and local impact). This estimate was approved by Paul N. Van de Water, Assistant Director for Budget Analysis.