CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 9, 1998

H.R. 4738

A bill to amend the Internal Revenue Code of 1986 to extend certain expiring provisions, provide tax relief for farmers and small businesses, and for other purposes

As ordered reported by the House Committee on Ways and Means on October 9, 1998, with two modifications

SUMMARY

H.R. 4738 is a tax bill that would amend existing tax laws and extend numerous tax provisions that have expired recently or are about to expire. The Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) estimate that H.R. 4738 would increase governmental receipts by $204 million over the 1999-2003 period. The bill would have no effect on direct spending. The estimate reflects two modifications to the reported bill--dropping the change in the health insurance deduction for the self-employed in 2002 and delaying the state election to exempt student employees from Social Security until July 1, 2000.

H.R. 4738 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments. The bill imposes three new private-sector mandates through changes in the treatment of certain deductible liquidating distributions of regulated investment companies and real estate investment trusts, restrictions on the 10-year net operating loss carryback rules for specified liability losses, and the imposition of taxes on a certain vaccine. The costs of the new mandates would exceed the threshold ($100 million in 1996, adjusted annually for inflation) specified in UMRA in fiscal years 1999-2003.

DESCRIPTION OF MAJOR PROVISIONS

H.R. 4738 would extend certain tax provisions that have recently expired or are about to expire, including:

- The research and experimentation tax credit through December 31, 1999,
- The work opportunity tax credit through December 31, 1999,
- The deduction provided for contributions of appreciated stock to private foundations on a permanent basis.
- The exemption from Subpart F for active financing income with modifications for one year,
- The Generalized System of Preferences through December 31, 1999,
- Income averaging for farmers on a permanent basis, and
- Tax information reporting for the income-contingent student loan program through September 30, 2003.

H.R.4738 would also amend certain existing tax laws in order to:

- Allow farmers not to include payments from production flexibility contracts in income prior to receipt,
- Accelerate the increase in the deduction for health insurance expenses for self-employed individuals to 100 percent in 2003 and thereafter,
- Increase state volume limits on private activity tax-exempt bonds and phase in ratably to the greater of $75 million per capita or $225 million in 2007,
- Change prior year estimated tax payment rules for individuals with adjusted gross income over $150,000, and
- Allow States to amend their Social Security coverage agreements to exempt student employees at state schools.

H.R. 4738 includes several revenue offset provisions that would:

- Modify the treatment of certain deductible liquidating distributions of regulated investment companies and real estate investment trusts,
- Add vaccines against rotavirus gastroenteritis to the list of taxable vaccines ($0.75 per dose),

- Clarify and expand math error procedures, and
- Restrict special net operating loss carryback rules for specified liability losses.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 4738 is summarized in the following table.

Table 1. Summary of Estimated Budgetary Effects of H.R. 4738

	1999	2000	2001	2002	2003
REVENUES					
Extension of Expiring Provisions	-2,304	-1,611	-608	-450	-301
Other Provisions	0	520	-47	-574	-268
Revenue Offsets	2,452	1,157	781	710	747
Total	148	66	126	-314	178
CHANGE IN SURPLUS					
Proposed Changes					
Off-Budget	0	-4	-42	-44	-46
On-Budget	148	70	168	-270	224
Total [a]	148	66	126	-314	178

Sources: Joint Committee on Taxation and Congressional Budget Office.
* = less than $500,000.

BASIS OF ESTIMATE

All the estimates for the revenue provisions, with the exception of extension of the Generalized System of Preferences (GSP) and amendment to Social Security law with respect to student employees at state schools, were provided by the JCT.

Generalized System of Preferences

H.R. 4738 would renew GSP, which expired on June 30, 1998, through December 31, 1999. Taxpayers could apply for refunds for the period since July 1, 1998. GSP affords

nonreciprocal tariff preferences to approximately 140 developing countries to aid their economic development and to diversify and expand their production and exports. Generally, duty-free treatment of imported goods from GSP-designated developing countries is extended to products that are not competitive internationally. The program contains safeguards to protect domestic industries that are sensitive to import competition. CBO estimates that renewing GSP would reduce governmental receipts by $393 million in fiscal year 1999, $84 million in fiscal year 2000, and a total of $477 million over the 1999-2000 period, net of payroll and income tax offsets. This estimate is based on projections of U.S. imports and recent data on collections from beneficiary countries under the GSP program.

Revenue Provisions Relating to Social Security Coverage

H.R. 4738 would also allow states to amend their Social Security coverage agreements to exempt student employees at state schools**.** In general, under section 3121 (b)(10) of the Internal Revenue Code, income earned by students employed by the college or university they attend is not subject to FICA tax. However, in the case of state colleges and universities, each state may choose in its agreement for the coverage of state and local employees ("218 agreement") to cover such income. This provision would allow states that currently cover such income --New Jersey, Pennsylvania, and Texas -- to amend their 218 agreements to exempt such income from FICA taxes. This exemption would be effective for services performed after June 30, 2000. CBO based its estimate on wage data supplied by most affected schools and published enrollment data. The revenue effects of this provision are shown in Table 2.

Table 2. Estimated Revenue Effects of Provisions in H.R. 4738 Relating to Social Security Coverage

	By Fiscal Year, in Millions of Dollars									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
On-Budget	0	0	-5	-5	-5	-5	-5	-6	-6	-6
Off-Budget	0	-4	-42	-44	-46	-47	-49	-50	-52	-54
Total	0	-5	-47	-49	-51	-52	-54	-56	-58	-60

Source: Congressional Budget Office
* = loss of less than $500,000.

PAY-AS-YOU-GO CONSIDERATIONS:

The Balanced Budget and Emergency Deficit Control Act of 1985 establishes pay-as-you-go procedures for legislation affecting direct spending or receipts. Only changes affecting on-budget outlays and receipts (that is, those in non-Social Security programs) affect the pay-as-you-go scorecard. For purposes of enforcing pay-as-you-go procedures, only the effects in the current year, budget year, and the succeeding four years are counted (see Table 3).

Table 3. Summary of Pay-As-You-Go Effects of H.R. 4738

	By Fiscal Year, in Millions of Dollars									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Change in Outlays	not applicable									
Change in Receipts	148	70	168	-270	224	-65	-102	-58	250	na

Sources: Congressional Budget Office and Joint Committee on Taxation
na = not available

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

CBO and JCT have determined the provisions of H.R. 4738 are either excluded from consideration under the Unfunded Mandates Reform Act (UMRA) or do not contain intergovernmental mandates as defined in that act.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

JCT has determined that H.R. 4738 would impose three new private-sector mandates by changing the treatment of certain deductible liquidating distributions of regulated investment companies and real estate investment trusts, adding the vaccine against rotavirus gastroenteritis to the list of taxable vaccines, and restricting the 10-year net operating loss carryback rules for specified liability losses. The direct costs of the new mandates would exceed the statutory threshold ($100 million in 1996, adjusted annually for inflation) established in UMRA in each of fiscal years 1999 though 2003 (see Table 4). CBO and the JCT have determined that the remaining provisions of the bill either are excluded from a consideration or do not contain private-sector mandates as defined in UMRA.

Table 4. Estimated Cost of Private-Sector Mandates

	By Fiscal Year, in Millions of Dollars				
	1999	2000	2001	2002	2003
Cost to the Private Sector	2,440	1,132	755	683	719

Source: Joint Committee on Taxation

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