CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 24, 2017

H.R. 1644
Korean Interdiction and Modernization of Sanctions Act

As ordered reported by the House Committee on Foreign Affairs
on March 29, 2017

SUMMARY

H.R. 1644 would require the President to expand existing sanctions and impose new sanctions against North Korea. The bill also would authorize the Department of State to provide rewards for information on violations of certain sanctions. Finally, the legislation would require preparation of several reports to the Congress on the implementation of the bill.

CBO estimates that implementing H.R. 1644 would cost $10 million over the 2017-2022 period, assuming appropriation of the estimated amounts. In addition, enacting the bill would increase revenues by $8 million and have insignificant effects on direct spending over the 2017-2027 period. Pay-as-you-go procedures apply because enacting the legislation would affect direct spending and revenues.

CBO estimates that enacting the legislation would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2028.

H.R. 1644 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

H.R. 1644 contains private-sector mandates, as defined in UMRA, by imposing requirements related to certain transactions associated with the new and expanded sanctions against North Korea. Because of the broad scope of existing U.S. sanctions against North Korea, CBO expects the number of domestic entities that would be affected by the incremental requirements in the bill would be small. Therefore, CBO estimates that the aggregate cost of the mandates in the bill would fall below the annual threshold established in UMRA for private-sector mandates ($156 million in 2017, adjusted annually for inflation.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of H.R. 1644 is shown in the following table. The costs of this legislation fall within budget functions 150 (international affairs) and 800 (general government).

	By Fiscal Year, in Millions of Dollars						
	2017	2018	2019	2020	2021	2022	2017-2022
INCREASES IN SPENDING SUBJECT TO APPROPRIATION							
Estimated Authorization Level	0	2	2	2	2	2	10
Estimated Outlays	0	2	2	2	2	2	10
INCREASES IN REVENUES[a]							
Estimated Revenues	0	*	*	1	1	1	3

Note: * = less than $500,000.

a. CBO estimates enacting H.R. 1644 would increase revenues by $8 million and have insignificant effects on direct spending over the 2017-2027 period.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 1644 will be enacted near the start of fiscal year 2018 and that the estimated amounts will be appropriated near the beginning of each fiscal year.

Spending Subject to Appropriation

Provisions of H.R. 1644 would increase administrative costs at the Department of State and the Department of the Treasury. Based on limited information from the Administration and the costs of implementing similar legislation, CBO estimates that the departments would require additional appropriations of $2 million a year. In total, and incorporating the effects of inflation, CBO estimates that implementing those provisions would cost $10 million over the 2017-2022 period, assuming appropriation of those estimated amounts.

Section 203 would authorize the Department of State to make cash awards for information on violations of certain sanctions. The department currently has a rewards program to deter transnational organized crime, which uses appropriated funds to offer cash awards for similar purposes. Based on information about awards offered under that program, CBO expects that the department could offer individual awards of up to $1 million to $2 million under section 203; however, CBO has no basis for estimating how many or when such amounts might be paid.

Direct Spending and Revenues

CBO expects that revenues from penalties would increase under provisions of the bill that would expand economic and trade sanctions, especially those covering certain financial transactions. Because significant sanctions on activity with North Korea already exist under current law and are generally complied with, and because the North Korean economy is relatively small, CBO expects that enacting the bill would increase revenues from penalties by a small amount—less than $500,000 each year in 2018 and 2019 and $1 million a year starting in 2020. In total, CBO estimates that enacting H.R. 1644 would increase revenues by $8 million over the 2017-2027 period.

In addition, enacting H.R. 1644 would increase both the number of people who would be denied visas by the Secretary of State and the number who would be subject to civil or criminal penalties. Most visa fees are retained by the Department of State and spent without further appropriation, but some fees are deposited in the Treasury as revenues. Penalties also are recorded as revenues and a portion of those penalties can be spent without further appropriation. However, CBO estimates that those provisions would affect very few people and thus have insignificant effects on both revenues and direct spending.

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. 1644 as ordered reported by the House Committee on Foreign Affairs on March 29, 2017

	By Fiscal Year, in Millions of Dollars												
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2017-2022	2017-2027
NET INCREASE OR DECREASE (-) IN THE DEFICIT													
Statutory Pay-As-You-Go Impact	0	0	0	-1	-1	-1	-1	-1	-1	-1	-1	-3	-8

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

CBO estimates that enacting the legislation would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2028.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 1644 contains no intergovernmental mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

H.R. 1644 would impose private-sector mandates, as defined in UMRA, by prohibiting transactions that lack sufficient financial controls to ensure that they do not facilitate any of the new or expanded set of sanctions against North Korea. The cost of the mandates would be the forgone net income from complying with the incremental requirements of the bill. Because of the broad scope of existing U.S. sanctions against North Korea, the number of domestic entities and the value of their transactions that would be affected by the bill would probably be small. For example, according to foreign trade statistics from the Census Bureau, U.S. exports to North Korea amounted to about $5 million in 2015. Therefore, CBO expects that the aggregate cost of mandates in the bill would fall below the annual threshold established in UMRA for private-sector mandates ($156 million in 2017, adjusted annually for inflation).

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