Congressional Budget Office
Cost Estimate

June 30, 2023

At a Glance

H.R. 3937, Small Business Jobs Act

As ordered reported by the House Committee on Ways and Means on June 13, 2023

By Fiscal Year, Millions of Dollars	2023	2023-2028	2023-2033
Direct Spending (Outlays)	0	0	0
Revenues	-138	-43,580	-81,071
Increase or Decrease (-) in the Deficit	138	43,580	81,071
Spending Subject to Appropriation (Outlays)	*	*	not estimated

Increases *net direct spending* in any of the four consecutive 10-year periods beginning in 2034?	No	Statutory pay-as-you-go procedures apply?	Yes
		Mandate Effects	
Increases *on-budget deficits* in any of the four consecutive 10-year periods beginning in 2034?	> $5 billion	Contains intergovernmental mandate?	No
		Contains private-sector mandate?	No

* = between zero and $500,000.

The bill would

- Raise certain thresholds for reporting to the Internal Revenue Service on payments to contractors and subcontractors and for online transactions
- Modify the rules for the exclusion of certain capital gains from the stock of qualified small businesses
- Increase the amount that a taxpayer can claim as a first-year deduction for the cost of qualifying property
- Establish a new type of opportunity zone in rural areas for which investments may receive certain tax benefits
- Establish information-reporting requirements for all opportunity zones

Estimated budgetary effects would mainly stem from

- Reduced revenues resulting from changes in reporting requirements for certain types of tax information
- Reduced revenues from higher allowable deferrals and exclusions for certain types of capital gains income
- Reduced revenues attributable to provisions that increase deductions for capital expenses

Areas of significant uncertainty include

- Projecting taxable income attributable to certain transactions and capital gains on investments

The Congressional Budget Act of 1974, as amended, stipulates that revenue estimates provided by the staff of the Joint Committee on Taxation (JCT) are the official estimates for all tax legislation considered by the Congress. CBO therefore incorporates such estimates into its cost estimates of the effects of legislation. Most of the estimates for the provisions of this bill were provided by JCT.

Detailed estimate begins on the next page.

See also
CBO's Cost Estimates Explained, *CBO Describes Its Cost-Estimating Process*, *Glossary*

Bill Summary

H.R. 3937 would amend sections of the Internal Revenue Code of 1986 related to requirements for reporting certain transactions to the Internal Revenue Service (IRS), the tax treatment of certain capital gains, allowable deductions for depreciation available to small businesses, and opportunity zones and funds.

Estimated Federal Cost

The estimated budgetary effect of H.R. 3937 is shown in Table 1.

Basis of Estimate

The Congressional Budget Act of 1974, as amended, stipulates that revenue estimates provided by the staff of the Joint Committee on Taxation (JCT) are the official estimates for all tax legislation considered by the Congress. CBO therefore incorporates such estimates into its cost estimates of the effects of legislation. The revenue estimates for the bill were provided by JCT.[1]

For this estimate, JCT assumes that the bill will be enacted in fiscal year 2023 and that, except as specified, the bill's provisions will be effective as if enacted on July 1, 2023.

Revenues

In total, JCT estimates, H.R. 3937 would decrease revenues by $81 billion over the 2023-2033 period.

Section 2, Increase in Threshold for Requiring Information Reporting With Respect to Certain Payees, would raise the threshold amount for filing an information return with the IRS to report payments for certain types of transactions. The change would reduce the amount to be reported but it would not affect the amount of taxes owed.

Under current law, taxpayers who pay for certain services performed by contractors or subcontractors must file an information return with the IRS and notify the contractor in writing that a return has been filed. The current threshold, both for filing and for notification, is $600 in aggregate payments, regardless of the number of transactions. In some circumstances, the taxpayer also must deduct and withhold income tax on certain reportable payments, known as backup withholding, if those payments total $600 or more.

1. For JCT's preliminary estimates of the provisions that include detail beyond the summary presented here, see Joint Committee on Taxation, *Description of H.R. 3937, the "Small Business Jobs Act"* (JCX-26-23), June 9, 2023, www.jct.gov/publications/2023/jcx-26-23; and *Estimated Revenue Effects of H.R. 3937, the "Small Business Jobs Act" Scheduled For Markup By The Committee on Ways and Means on June 13, 2023* (JCX-27-23), June 9, 2023, www.jct.gov/publications/2023/jcx-27-23. Other details are in Joint Committee on Taxation, *Description of the Chairman's Amendment in the Nature of a Substitute to H.R. 3937, the "Small Business Jobs Act"* (JCX-31-23), June 12, 2023, www.jct.gov/publications/2023/jcx-31-23.

Table 1.
Estimated Budgetary Effects of H.R. 3937

	By Fiscal Year, in Millions of Dollars												
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2023-2028	2023-2033
	Increases or Decreases (-) in Revenues												
Section 2 Estimated Revenues	0	-609	-1,252	-1,319	-1,389	-1,461	-1,537	-1,616	-1,699	-1,785	-1,875	-6,030	-14,542
Section 3 Estimated Revenues	-145	-960	-780	-819	-860	-903	-948	-995	-1,045	-1,097	-1,152	-4,467	-9,705
Section 4 Estimated Revenues	7	71	72	48	-147	-645	-1,946	-2,102	-2,217	-2,331	-2,466	-594	-11,656
Section 5 Estimated Revenues	0	-4,625	-7,954	-6,119	-5,341	-4,522	-3,596	-3,115	-2,924	-2,905	-2,999	-28,561	-44,099
Section 6 Estimated Revenues	0	-535	-728	-762	-1,013	-891	-905	-917	-929	-199	5,808	-3,928	-1,069
Section 7 Estimated Revenues	*	*	*	*	*	*	*	*	*	*	*	*	*
Total Changes													
Revenues	-138	-6,658	-10,642	-8,971	-8,750	-8,422	-8,932	-8,745	-8,814	-8,317	-2,684	-43,580	-81,071

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

Components may not sum to totals because of rounding; * = between -$500,000 and $500,000.

CBO estimates that implementing H.R. 3937 would increase spending subject to appropriation by less than $500,000 in any year over the 2023-2028 period.

The bill would raise the threshold for information reporting and backup withholding to $5,000 in calendar year 2023 and then, beginning in 2024, increase that amount annually to keep pace with inflation. JCT estimates that enacting section 2 would reduce revenues by $15 billion over the 2023-2033 period.

Section 3, Restoration of Reporting Rule for Third Party Network Transactions, would raise the reporting threshold for information on transactions of businesses that participate with certain third-party networks, specifically those that manage payment transactions for businesses or provide an online marketplace for individual sellers.

Under current law, as of calendar year 2023, networks that facilitate online transactions must notify both the IRS and the sellers on their networks if total payments within a year exceed $600, regardless of the number of transactions.

Section 3 would restore prior reporting thresholds of $20,000 in annual sales and 200 transactions per year. JCT estimates that enacting section 3 would reduce revenues by $10 billion over the 2023-2033 period.

Section 4, Modifications to Exclusion for Gain From Qualified Small Business Stock, would expand the exclusion of certain capital gains from the sale of stock in certain qualified small businesses from reporting as taxable income.

Under current law, such stock must be held for five years for the gains from the sale to qualify for an exclusion, and the exclusion applies only to the stock of C corporations (businesses subject to the corporate income tax).

Section 4 would create a schedule for phasing in the exclusion at 50 percent after three years, 75 percent after four years, reaching 100 percent after five years. The section also would allow the holding period for convertible debt to count toward the holding period once debt is converted to stock. In addition, section 4 would expand the modification to include stock issued by S corporations (corporations subject to the individual income tax). JCT estimates that enacting section 4 would reduce revenues by $12 billion over the 2023-2033 period.

Section 5, Increase in Limitations on Expensing of Depreciable Business Assets, would increase the amount that a taxpayer can elect to expense (deduct in the first year) for investments in qualifying property.

Under current law, eligible taxpayers may expense up to $1 million of the cost of qualifying property placed in service for the taxable year. If the property costs more than $2.5 million, the $1 million expensed is reduced by the excess of the cost above $2.5 million.

Section 5 would raise the maximum allowable amount to $2.5 million, with the reduction calculated as the excess of the cost over $4 million. JCT estimates that enacting section 5 would reduce revenues by $44 billion over the 2023-2033 period.

Section 6, Establishment of Special Rules for Capital Gains Invested in Rural Opportunity Zones, would create rural opportunity zones and establish qualified rural opportunity zone funds to provide a temporary deferral from taxation of income from reinvestment in a fund and a permanent exclusion for capital gains arising from the sale or exchange of investment in a fund.

Under current law, qualified opportunity zone funds provide investors with tax benefits. The requirements for a community to be identified as a qualified opportunity zone, and the requirements for a corporation to be a qualified opportunity zone fund, are defined in the Internal Revenue Code.

Section 6 would expand the definition to create specially designated qualified rural opportunity zones and rural opportunity zone funds. JCT estimates that enacting section 6 would reduce revenues by $1 billion over the 2023-2033 period.

Section 7, Reporting on Qualified Opportunity Funds and Qualified Rural Opportunity Funds, would establish reporting requirements for qualified opportunity zone funds and qualified opportunity zone businesses and extend those requirements to qualified rural opportunity zone funds and businesses.

Under current law, no statutory reporting requirement exists, although the Secretary of the Treasury has authority to develop any regulations that are deemed necessary.

Section 7 would require qualified opportunity zone funds, both rural and otherwise, to file information returns to support their status. The bill also would require businesses operating within qualified opportunity zones, both rural and otherwise, to submit reports to the funds, or face penalties. JCT estimates that enacting section 7 would have an insignificant effect on revenues in any year over the 2023-2033 period.

Spending Subject to Appropriation

CBO estimates that implementing H.R. 3937 would increase IRS administrative costs by less than $500,000 in 2023 and over the 2023-2028 period. That spending would be subject to the availability of appropriated funds.

Uncertainty

JCT's estimates of the budgetary effects of H.R. 3937 are subject to uncertainty because they are made on the basis of underlying projections and other factors that could change significantly. Specifically, estimates for many of the bill's revenue provisions rely on projections of income attributable to certain transactions and on projections of capital gains on investment activities, which in turn are based on CBO's economic projections for the next decade under current law and on estimates of the way taxpayers might respond to changes in tax calculation and reporting rules.

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 revenues that are subject to those pay-as-you-go procedures are shown in Table 2.

Table 2.
CBO's Estimate of the Statutory Pay-As-You-Go Effects of H.R. 3937, the Small Business Jobs Act, as Ordered Reported by the House Committee on Ways and Means on June 13, 2023

	By Fiscal Year, Millions of Dollars												
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2023-2028	2023-2033
	Net Increase in the Deficit												
Pay-As-You-Go Effect	138	6,658	10,642	8,971	8,750	8,422	8,932	8,745	8,814	8,317	2,684	43,580	81,071

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

Increase in Long-Term Net Direct Spending and Deficits

CBO and JCT estimate that enacting H.R. 3937 would not increase net direct spending in any of the four consecutive 10-year periods beginning in 2034.

CBO and JCT estimate that enacting H.R. 3937 would increase on-budget deficits by more than $5 billion in at least one of the four consecutive 10-year periods beginning in 2034.

Mandates: None.

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