**CONGRESSIONAL BUDGET OFFICE**
**COST ESTIMATE**

December 28, 2006

# H.R. 6111
## Tax Relief and Health Care Act of 2006

*As cleared by the Congress on December 8, 2006,*
*and signed by the President on December 20, 2006*

## SUMMARY

H.R. 6111 (enacted as Public Law 109-432) makes various changes to tax and trade law. It also makes multiple changes in the Medicare program and provides for additional offshore oil and gas leasing in the Gulf of Mexico. Finally, it amends the Surface Mining Control and Reclamation Act. The tax law changes include extending and expanding certain expiring provisions, altering rules for health savings accounts (HSA), and expanding the use of tax credits against the alternative minimum tax. Additionally, H.R. 6111 makes several changes in tariffs and trade law, which include suspending or reducing duties on specific products, extending and altering multiple trade preference programs, and granting permanent normal trade relations (PNTR) status to Vietnam.

The Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) estimate that the act will decrease governmental receipts by $15.6 billion in 2007, by $36.0 billion over the 2007-2011 period, and by $40.0 billion over the 2007-2016 period. CBO and JCT also estimate that the act will increase outlays by $3.2 billion in 2007, by $5.0 billion over the 2007-2011 period, and by $10.5 billion over the 2007-2016 period.

## ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 6111 is summarized in Table 1. The spending effects of the legislation fall within budget functions 300 (natural resources and environment), 350 (agriculture), 550 (health), 570 (Medicare), 800 (general government), and 950 (undistributed offsetting receipts).

**TABLE 1. SUMMARY OF BUDGETARY EFFECTS OF H.R. 6111 (PUBLIC LAW 109-432), THE TAX RELIEF AND HEALTH CARE ACT OF 2006**

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2007-2016 |
| **CHANGES IN REVENUES** | | | | | | | | | | | |
| Estimated Revenues | -15,605 | -10,949 | -4,474 | -2,984 | -1,980 | -1,171 | -761 | -752 | -715 | -590 | -39,986 |
| On-budget Revenues | -15,600 | -10,935 | -4,467 | -2,977 | -1,971 | -1,160 | -748 | -729 | -682 | -555 | -39,829 |
| Off-budget Revenues | -5 | -14 | -7 | -7 | -9 | -11 | -13 | -23 | -33 | -35 | -157 |
| **CHANGES IN DIRECT SPENDING** | | | | | | | | | | | |
| Estimated Budget Authority | 3,323 | 2,843 | -390 | -429 | -308 | 1,228 | 1,414 | 1,182 | 898 | 876 | 10,637 |
| Estimated Outlays | 3,248 | 2,338 | 5 | -302 | -307 | 1,218 | 1,419 | 1,182 | 878 | 861 | 10,540 |

Sources: Congressional Budget Office (CBO) and Joint Committee on Taxation (JCT).

## REVENUES

H.R. 6111 extends and modifies various expiring tax relief provisions, makes changes to energy tax law, alters rules for health savings accounts, and amends the Surface Mining Control and Reclamation Act. The legislation makes multiple changes to tariffs and trade law as well. CBO and JCT estimate that enacting H.R. 6111 will reduce revenues by $15.6 billion in 2007, by $36.0 billion over the 2007-2011 period, and by $40.0 billion over the 2007-2016 period (see Table 2).

### Revenue Effects of Division A—Extension and Expansion of Certain Tax Relief Provisions, and Other Tax Provisions

**Research Credit and Other Expiring Provisions**. Title I extends and expands multiple expiring tax provisions. These changes include extending and modifying the research credit, extending for two years the option for taxpayers to deduct state and local sales taxes instead of state and local income taxes, extending for two years the 15-year straight-line cost recovery period for qualified restaurant property and leasehold improvement property, and extending for two years the deduction for qualified tuition and other higher education expenses. Title I also extends for one year the requirement that group health plans provide for parity in certain benefit limits applied to mental health services and medical and surgical services. JCT estimates that enacting title I will decrease revenues by $14.7 billion in 2007, by $32.4 billion over the 2007-2011 period, and by $35.7 billion over the 2007-2016 period. (The revenue estimate for the mental health parity provision includes reductions in off-budget receipts from Social Security payroll taxes of $13 million over the 2007-2009 period.)

**TABLE 2. ESTIMATED IMPACT OF H.R. 6111 ON REVENUES**

| | By Fiscal Year, In Millions of Dollars | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2007-2016 |
| **CHANGES IN REVENUES** | | | | | | | | | | | |
| Division A - Extension and Expansion of Certain Tax Relief Provisions, and Other Tax Provisions | | | | | | | | | | | |
| Title I - Extension and Modification of Certain Provisions | -14,667 | -9,780 | -3,809 | -2,573 | -1,584 | -807 | -669 | -719 | -627 | -496 | -35,732 |
| Title II - Energy Tax Provisions | 0 | -285 | -404 | -381 | -403 | -412 | -390 | -371 | -373 | -372 | -3,393 |
| Title III - Health Savings Accounts | -23 | -50 | -64 | -70 | -80 | -89 | -101 | -148 | -198 | -212 | -1,035 |
| Title IV - Other Provisions | -582 | -370 | -120 | -46 | 4 | 40 | 286 | 372 | 367 | 365 | 314 |
| Division C - Other Provisions | | | | | | | | | | | |
| Title II - Surface Mining Control and Reclamation Act Amendments of 2006 | 30 | 160 | 150 | 120 | 100 | 110 | 90 | 90 | 90 | 90 | 1,030 |
| Title IV - Other Provisions | * | 13 | 3 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 21 |
| Division D - Tariff and Trade | -363 | -636 | -230 | -35 | -18 | -14 | 22 | 24 | 25 | 33 | -1,192 |
| **Total Changes in Revenues** | **-15,605** | **-10,949** | **-4,474** | **-2,984** | **-1,980** | **-1,171** | **-761** | **-752** | **-715** | **-590** | **-39,986** |
| On-budget | -15,600 | -10,935 | -4,467 | -2,977 | -1,971 | -1,160 | -748 | -729 | -682 | -555 | -39,829 |
| Off-budget | -5 | -14 | -7 | -7 | -9 | -11 | -13 | -23 | -33 | -35 | -157 |

Sources: CBO and JCT.

NOTES: Components may not sum to totals because of rounding.

* = Revenue gain of less than $500,000

The JCT instructed CBO to adjust its cost estimate for section 406 of Division A of the legislation to reflect an updated estimate by JCT. Consequently, this table includes a gain in revenues from this section that is $86 million lower over the 2007-2016 period than the estimate published by JCT in JCX-51-06.

**Energy Tax Provisions**. Title II extends certain expiring energy tax provisions and amends or creates other provisions related to energy taxes. For example, it extends the tax credit for electricity produced from renewable resources and the deduction for expenditures on energy-efficient buildings. JCT estimates that title II will have no effect in 2007, but will decrease revenues by $1.5 billion over the 2007-2011 period and $3.4 billion over the 2007-2016 period.

**Health Savings Accounts**. Title III makes various changes to rules regarding HSAs. The legislation permits taxpayers starting an HSA partway through a year to contribute up to the full annual limit, and it allows employees to start an HSA by making a one-time transfer of amounts in a flexible spending arrangement or a health reimbursement arrangement. It also repeals the limitation on contributions to HSAs that corresponds to the annual deductible under a high-deductible insurance policy. JCT estimates that enacting title III will reduce revenues by $23 million in 2007, by $287 million over the 2007-2011 period, and by $1.0 billion over the 2007-2016 period. (Of the revenue loss from the contribution limitation provision, JCT estimates that a portion will be off-budget—totaling $144 million over the 2007-2016 period.)

**Miscellaneous Tax Changes**. Title IV makes miscellaneous tax law changes. It expands the use of alternative minimum tax credits and makes them partially refundable. (A refundable credit reduces a taxpayer's overall income tax liability; if the credit exceeds that liability, the excess may be refunded, in which case it is classified as an outlay in the federal budget.) This provision sunsets on December 31, 2012. Title IV also expands the deduction for income from domestic production activities to include such activities in Puerto Rico, and it expands the qualified mortgage bond program by waiving the first-time homebuyer requirement for veterans (with one waiver allowed per person). JCT estimates that title IV will decrease revenues by $582 million in 2007 and $1.1 billion over the 2007-2011 period, but that it will increase revenues by $314 million over the 2007-2016 period.

**Revenue Effects of Division C – Other Provisions**

Title II amends the Surface Mining Control and Reclamation Act. The legislation reauthorizes certain fees on coal producers that are currently set to expire after fiscal year 2007. Based on information from the Office of Surface Mining (OSM) about anticipated levels of coal production, CBO estimates those fees will increase revenues by $600 million over the 2007-2011 period and by $1.3 billion over the next 10 years, net of effects on income and payroll tax receipts. We also estimate that provisions that affect the financing of benefits for certain retired coal miners will reduce future federal revenues, primarily by reducing receipts of premiums paid by certain companies in the future. CBO estimates such changes will result in a net loss of $40 million over the 2007-2011 period and $290 million over the next 10 years. On balance, we estimate this title will increase net revenues by $30 million in 2007, by $560 million over the 2007-2011 period, and by $1.0 billion over the next 10 years. (The estimated effects of this title on federal spending are discussed below under the heading "Direct Spending.")

Title IV makes miscellaneous changes to the Internal Revenue Code and to the Harmonized Tariff Schedule. It extends the 54 cents-per-gallon tariff on ethanol from its scheduled expiration on September 30, 2007, to December 31, 2008; clarifies that the personal use exemption for tobacco does not apply to delivery sales; and provides temporary duty suspensions for certain cotton shirting fabric. Together, these provisions will increase revenues by less than $500,000 in 2007, by $16 million over the 2007-2011 period, and by $21 million over the 2007-2016 period, CBO and JCT estimate.

**Revenue Effects of Division D—Temporarily Modify Certain Rates of Duty and Make Other Technical Amendments to the Trade Laws, Extend Certain Trade Preference Programs, and Other Purposes**

Division D suspends or reduces duties on specific products, authorizes refunds of duties already paid on certain entries (reliquidation), extends and alters multiple trade preference programs, and grants PNTR to Vietnam. CBO estimates that Division D will reduce revenues by $363 million in 2007, by $1.3 billion over the 2007-2011 period, and by $1.2 billion over the 2007-2016 period (see Table 3).

**Tariffs on Specific Imported Products**. Title I reduces or suspends the duties on various products imported into the United States, effective through December 31, 2009. Duties on almost 400 products will be newly suspended or reduced. The legislation also temporarily extends nearly 140 other previously enacted duty suspensions and reductions. The products involved include certain chemical compounds, manufactured goods, and footwear. Based on information from the U.S. International Trade Commission (ITC), CBO estimates that title I will decrease revenues by $53 million in 2007 and by $217 million over the 2007-2010 period.

**Vietnam PNTR**. Title IV allows the President to grant permanent normal trade relations status to Vietnam. Vietnam has received normal trade relations (NTR) status, renewed annually pursuant to a Presidential waiver of the Jackson-Vanik amendment (title IV of the Trade Act of 1974), since 2001. CBO's revenue baseline has assumed that Vietnam will continue to receive NTR status, so CBO estimates that making permanent Vietnam's NTR standing will not affect tariff rates.

However, when Vietnam becomes a member of the World Trade Organization (WTO) on January 11, 2007, U.S. quotas on Vietnamese products will be liberalized, thereby increasing imports and yielding more tariff revenue. Because it appears that significant types of imports from Vietnam are restricted by binding quotas, CBO expects that liberalizing those quotas will result in an increase in imports (particularly of textiles and apparel) from Vietnam and the associated tariff collections. Those increases will be partly offset by decreased imports from other countries. Title IV also allows quotas to be imposed later if the U.S. Trade Representative finds that Vietnam is providing prohibited subsidies to its textile and apparel industry. CBO estimates that title IV will increase revenues by $18 million in 2007, by $108 million over the 2007-2011 period, and by $253 million over the 2007-2016 period.

**TABLE 3. ESTIMATED REVENUE EFFECTS OF DIVISION D – TARIFF AND TRADE PROVISIONS**

| | By Fiscal Year, In Millions of Dollars | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2007-2016 |
| **CHANGES IN REVENUES** | | | | | | | | | | | |
| Division D - Tariff and Trade Provisions | | | | | | | | | | | |
| Title I - Tariff Provisions | -53 | -72 | -74 | -19 | 0 | 0 | 0 | 0 | 0 | 0 | -217 |
| Title IV - Vietnam Permanent Normal Trade Relations | 18 | 22 | 22 | 23 | 23 | 25 | 27 | 29 | 31 | 33 | 253 |
| Title V - Haiti | -4 | -6 | -6 | -6 | -6 | -2 | 0 | 0 | 0 | 0 | -29 |
| Title VI - African Growth and Opportunity Act Provisions | -2 | -26 | -31 | -33 | -35 | -37 | -5 | -5 | -6 | 0 | -180 |
| Title VII - Andean Trade Preference Provisions | -25 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -25 |
| Title VIII - Generalized System of Preferences Provisions | -297 | -554 | -141 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | -992 |
| Other Provisions | -1 | * | * | * | * | * | * | * | * | * | -1 |
| Total Changes | -363 | -636 | -230 | -35 | -18 | -14 | 22 | 24 | 25 | 33 | -1,192 |

Sources: CBO and JCT.

NOTES: Components may not sum to totals because of rounding.

* = Loss of less than $500,000.

**Imports from Haiti**. Title V creates new rules of origin for apparel imports from Haiti that enter the United States duty-free and changes rules for certain other products as well. Haiti already enjoys trade preferences under the Caribbean Basin Economic Recovery Act, but this legislation creates a special rule for Haitian apparel products. It allows products eligible for duty-free treatment to originate in not just Haiti or the United States, but in any country that has a free trade agreement with the United States or that is eligible under a U.S. trade preference program (as long as at least 50 percent of the value of the finished product is from such countries in the first year). CBO estimates that title V will reduce revenues by $4 million in 2007, by $28 million over the 2007-2011 period, and by $29 million over the 2007-2016 period. The provisions are effective for five years.

**Imports from Africa**. Title VI extends certain apparel provisions of the African Growth and Opportunity Act (AGOA). Currently, apparel articles (subject to quantity restrictions) made in certain less-developed African countries receive duty-free access no matter the country of origin of the fabric or yarn. This legislation extends that rule from October 1, 2008, through September 30, 2012. Furthermore, an expiration date under AGOA for the duty-free treatment of certain textile and apparel provisions will be changed from September 30, 2008, to September 30, 2015. CBO estimates that title VI will reduce revenues by about $2 million in 2007, by $127 million over the 2007-2011 period, and by $180 million over the 2007-2016 period.

**Andean Trade**. Title VII extends the Andean Trade Preference Act (ATPA), which had been scheduled to expire on December 31, 2006. This legislation extends ATPA through June 30, 2007, for all four beneficiary countries (Bolivia, Colombia, Ecuador, and Peru). CBO estimates that this extension will decrease revenues by $25 million in 2007. Title VII also contains a further, conditional extension, effective on enactment of free trade agreements (FTA). Because this conditional extension is contingent on future acts of the Congress, CBO does not include any estimates of its budgetary effects in this cost estimate. (If, however, FTAs were enacted and implemented with the four countries next year, CBO currently estimates that the extra six-month extension would reduce revenues by $12 million in 2007 and by $13 million in 2008. CBO would include such effects in the cost estimates for the implementing bills.)

**Generalized System of Preferences**. Title VIII both extends and alters the Generalized System of Preferences (GSP). GSP provides duty-free entry for products from 144 countries, and it had been set to expire on December 31, 2006. Imports under GSP are subject to a competitive need limitation (CNL). That is, if the value of a product imported from a particular beneficiary country exceeds a certain amount ($120 million in 2005), duty-free treatment of that country's product is terminated. The President, however, may waive this CNL and allow such products to continue to enter the United States free of duty. This legislation limits the President's ability to waive CNLs in certain situations, thereby restricting the scope of GSP trade preferences. Further, the legislation extends GSP through December 31, 2008. Given the extension and the new CNL waiver limits, CBO estimates that title VIII will reduce revenues by $297 million in 2007 and by $992 million over the 2007-2016 period.

## DIRECT SPENDING

H.R. 6111 makes changes in the Medicare program, allows for additional oil and gas leasing in the Gulf of Mexico, and increases health care benefits for retired miners. The legislation also includes several tax provisions that will affect spending. CBO and JCT estimate that H.R. 6111 will increase outlays by $3.2 billion in 2007, by $5.0 billion over the 2007-2011 period, and by $10.5 billion over the 2007-2016 period (see Table 4).

### Direct Spending Effects of Division A—Extension and Expansion of Certain Tax Relief Provisions, and Other Tax Provisions

Title I includes two provisions that will increase outlays. First, the legislation extends the option for individuals to include combat pay in earned income for purposes of the earned income credit through December 31, 2007. JCT estimates that this will increase refundable outlays by $10 million in 2008.

Additionally, title I increases certain payments to Puerto Rico and the Virgin Islands. An excise tax of $13.50 per proof gallon is assessed on distilled spirits produced or brought into the United States. The treasuries of Puerto Rico and the Virgin Islands have received $10.50 per proof gallon of the excise tax on rum imported into the United States from any country or those possessions (that amount is known as the tax cover over) since a higher payment rate of $13.25 per proof gallon expired on December 31, 2005. Under this act, the governments of Puerto Rico and the Virgin Islands will receive payments of $13.25 per proof gallon of tax assessments made between January 1, 2006, and December 31, 2007. Those payments are recorded as outlays in the budget. Based on recent tax and payment data, CBO estimates that increasing the possessions' share of the excise tax will increase direct spending by $160 million in 2007 and $18 million in 2008.

**TABLE 4. ESTIMATED IMPACT OF H.R. 6111 ON DIRECT SPENDING**

| | By Fiscal Year, In Millions of Dollars | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2007-2016 |
| **CHANGES IN DIRECT SPENDING** | | | | | | | | | | | |
| Division A - Extension and Expansion of Certain Tax Relief Provisions, and Other Tax Provisions | | | | | | | | | | | |
| Title I - Extension and Modification of Certain Provisions | | | | | | | | | | | |
| Estimated Budget Authority | 160 | 28 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 188 |
| Estimated Outlays | 160 | 28 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 188 |
| Title IV - Other Provisions | | | | | | | | | | | |
| Estimated Budget Authority | 3 | 357 | 290 | 230 | 180 | 134 | 92 | 6 | 6 | 6 | 1,304 |
| Estimated Outlays | 3 | 357 | 290 | 230 | 180 | 134 | 92 | 6 | 6 | 6 | 1,304 |
| Division B - Medicare and Other Health Provisions | | | | | | | | | | | |
| Estimated Budget Authority | 3,101 | 2,122 | -1,214 | -1,149 | -1,038 | 464 | 747 | 676 | 657 | 675 | 5,040 |
| Estimated Outlays | 3,026 | 1,627 | -794 | -1,012 | -1,037 | 464 | 747 | 676 | 657 | 675 | 5,029 |
| Division C - Other Provisions | | | | | | | | | | | |
| Title I - Gulf of Mexico Energy Security | | | | | | | | | | | |
| Estimated Budget Authority | 0 | -140 | 54 | -90 | -40 | -20 | -85 | -130 | -195 | -235 | -881 |
| Estimated Outlays | 0 | -140 | 29 | -90 | -40 | -20 | -80 | -130 | -205 | -250 | -926 |
| Title II - Surface Mining Control and Reclamation Act Amendments of 2006 | | | | | | | | | | | |
| Estimated Budget Authority | 40 | 460 | 480 | 580 | 590 | 650 | 660 | 630 | 430 | 430 | 4,950 |
| Estimated Outlays | 40 | 450 | 480 | 570 | 590 | 640 | 660 | 630 | 420 | 430 | 4,910 |
| Title IV - Other Provisions | | | | | | | | | | | |
| Estimated Budget Authority | 16 | 16 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 32 |
| Estimated Outlays | 16 | 16 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 32 |
| Division D - Tariff and Trade Provisions | | | | | | | | | | | |
| Estimated Budget Authority | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3 |
| Estimated Outlays | 3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3 |
| **Total Changes in Direct Spending** | | | | | | | | | | | |
| **Estimated Budget Authority** | **3,323** | **2,843** | **-390** | **-429** | **-308** | **1,228** | **1,414** | **1,182** | **898** | **876** | **10,637** |
| **Estimated Outlays** | **3,248** | **2,338** | **5** | **-302** | **-307** | **1,218** | **1,419** | **1,182** | **878** | **861** | **10,540** |

Sources: CBO and JCT.

Note: Components may not sum to totals because of rounding.

Title IV also includes two provisions that will increase outlays. Instituting a refundable tax credit against the individual alternative minimum tax, JCT estimates, will increase outlays by $1.0 billion over the 2007-2011 period and by $1.2 billion over the 2007-2016 period. Adding two vaccines to the existing list of taxable vaccines, CBO estimates, will result in increases in spending of $60 million over the 2007-2016 period because some of the proceeds of the excise tax on vaccines are paid as compensation to injured individuals and some of the vaccines are purchased by Medicaid.

## Direct Spending Effects of Division B—Medicare and Other Health Provisions

Division B, the Medicare Improvements and Extension Act of 2006, makes numerous changes to Medicare, Medicaid, and other federal health programs. CBO estimates those changes will increase federal spending by $3.0 billion in 2007, $1.8 billion over the 2007-2011 period, and $5.0 billion over the 2007-2016 period. (The changes to the Medicare program account for all but $0.2 billion of those amounts.) The estimated effects of Division B on direct spending are shown in Table 5.

**Medicare Provisions**. The largest costs for Division B will result from provisions that will increase payments for physicians' services (about $5 billion over the 2007-2010 period), and increase payment rates for dialysis services ($1.1 billion over ten years). Other significant costs stem from provisions that extend certain expiring provisions, establish coverage for the administration of vaccines that are covered under Part D, and authorize payments to contractors who audit claims to identify and correct improper payments.

Those increases in spending will be offset, in part, by a provision that will eliminate the ability of the Secretary of Health and Human Services (HHS) to make payments to managed care plans participating in the Medicare program from a "stabilization fund" during the 2007-2011 period, and will reduce the amount available to be spent from that fund in subsequent years by $6.5 billion.

On net, CBO estimates that the provisions of Division B will increase Medicare spending by $2.8 billion in 2007, $1.7 billion over the 2007-2011 period, and $4.9 billion over the 2007-2016 period.[1] Those estimates reflect the effect of changes in Medicare spending in the fee-for-service sector on payment rates for enrollees in Medicare Advantage plans and the effect of changes in spending for services covered by Part B of Medicare on receipts from Part B premiums.

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1. Those estimates do not include expected savings from a provision that provides funding for contractors to audit paid claims and recover overpayments because a Congressional scorekeeping rule does not allow counting such potential savings when they accrue from new spending for program administration (as in this case).

## TABLE 5. ESTIMATED BUDGETARY EFFECTS OF DIVISION B - MEDICARE AND OTHER HEALTH PROVISIONS

| Section | Outlays in Billions of Dollars, by Fiscal Year | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2007-2016 |
| **CHANGES IN DIRECT SPENDING** | | | | | | | | | | | |
| **Medicare Provisions** | | | | | | | | | | | |
| 101 Physician update, except subsection (d) | 1.8 | 1.3 | * | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3.1 |
| 101(d) Physician assistance and quality initiative fund | 0 | 0.8 | 0.4 | 0.1 | 0 | 0 | 0 | 0 | 0 | 0 | 1.4 |
| 102 Extend GPCI floor | 0.3 | 0.2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.5 |
| 103 Payments for dialysis services | * | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 1.1 |
| 201 Extend exceptions process for therapy services | 0.4 | 0.1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0.6 |
| 202 Payment for administration of Part D vaccines | * | * | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.8 |
| 302 Recovery audit contractor program | 0.1 | 0.3 | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.6 | 0.6 | 4.4 |
| 301 Offsetting adjustment to stabilization fund | 0 | -1.3 | -1.7 | -1.7 | -1.8 | -0.2 | 0.1 | * | 0 | 0 | -6.5 |
| - - Other Medicare provisions | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | * | * | * | * | * | 0.6 |
| - - Effect on payments to Medicare Advantage plans | 0 | 0.4 | 0.1 | * | * | * | * | * | * | * | 0.7 |
| - - Effect on premiums | 0 | -0.7 | -0.2 | -0.2 | 0.1 | -0.1 | -0.2 | -0.2 | -0.2 | -0.2 | -1.7 |
| **Subtotal, Total Medicare Changes** | **2.8** | **1.5** | **-0.7** | **-1.0** | **-1.0** | **0.5** | **0.7** | **0.7** | **0.7** | **0.7** | **4.9** |
| **Other Health Provisions** | | | | | | | | | | | |
| 401 Extend TMA and abstinence education | 0.1 | 0.2 | * | * | * | * | * | * | * | * | 0.4 |
| 403 Reduce limit on provider taxes to 5.5 percent | 0 | -0.1 | -0.1 | * | * | 0 | 0 | 0 | 0 | 0 | -0.3 |
| 404 Establish DSH allotments for Tennessee and Hawaii for 2007 | * | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | * |
| **Subtotal, Other Health Provisions** | **0.2** | **0.1** | **-0.1** | ***** | ***** | ***** | ***** | ***** | ***** | ***** | **0.2** |
| **Net Changes in Direct Spending** | **3.0** | **1.6** | **-0.8** | **-1.0** | **-1.0** | **0.5** | **0.7** | **0.7** | **0.7** | **0.7** | **5.0** |

**Memorandum:**
Estimated changes in budget authority and outlays for Division B, by fiscal year, in millions of dollars

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2007-2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Estimated Budget Authority | 3,101 | 2,122 | -1,214 | -1,149 | -1,038 | 464 | 747 | 676 | 657 | 675 | 5,040 |
| Estimated Outlays | 3,026 | 1,627 | -794 | -1,012 | -1,037 | 464 | 747 | 676 | 657 | 675 | 5,029 |

NOTES: DSH = disproportionate share hospital, GPCI = geographic practice cost index, TMA = transitional medical assistance.

Changes in budget authority will be identical to changes in estimated outlays for all provisions except sections 101, 203, 205, 303, 304, and 401.

* = between -$50 million and $50 million.

*Physicians' Services*. The provisions that will have a substantial effect on Medicare spending for physicians' services are:

- Section 101, which will increase payment rates for physicians' services furnished in 2007;

- Subsection 101(d), which will establish a $1.35 billion fund from which the Secretary will make payments to physicians beginning in 2008; and

- Section 102, which will increase payments to physicians who practice in geographic areas where labor costs are estimated to be less than the national average.

*Section 101, Physician update*. The act will modify the update to payment rates for physicians' services furnished in 2007, provide additional payments to physicians who report quality measures, and provide funding to implement those changes. CBO estimates those changes will increase Medicare spending by $1.8 billion in 2007 and by $3.1 billion over the 2007-2016 period. (There is no estimated impact after 2009.)

Under prior law, payment rates for physicians' services were scheduled to be reduced by 5 percent on January 1, 2007. Section 101 eliminates that reduction, thereby maintaining payment rates at the 2006 level, on average. Section 101 also specifies that payment rates will revert to the prior-law level in 2008. Assuming that occurs, CBO estimates that payment rates for physicians' services will be reduced by about 10 percent in 2008. CBO estimates those changes will increase Medicare spending by $1.7 billion in 2007 and by $2.7 billion over the 2007-2016 period.

In addition, section 101 requires the Secretary to establish a system for physicians to report measures of the quality of the care they provide. Physicians who report those measures for services furnished from July through December 2007 will be paid an additional 1.5 percent for those services—with that payment being made in a lump sum in 2008. CBO estimates that physicians who account for about two-thirds of Medicare spending for physicians' services will qualify and will receive payments totaling about $0.3 billion.

Section 101 also provides $60 million, to remain available during fiscal years 2007 through 2009, to pay for the cost of implementing the provisions of this section—including subsection 101(d) (discussed below). CBO estimates that the entire amount will be spent.

*Subsection 101(d), Physician assistance and quality initiative fund*. This provision will provide $1.35 billion to the Secretary in 2008. Those funds will remain available until spent, but the act instructs the Secretary to obligate those funds for physicians' services furnished during calendar year 2008 to the maximum extent feasible. It also will require the Chief

Actuary of the Centers for Medicare & Medicaid Services to certify that the Secretary's plan for spending the funds will not result in expenditures that exceed the balance of the fund. CBO estimates that the resulting plan will obligate 90 percent of the funds in calendar year 2008 and the remaining funds in 2009.

*Section 102, Geographic Practice Cost Index*. Medicare payments for physicians' services are adjusted based on estimates of how labor costs in a particular geographic area compare to the national average. This provision will establish a floor on that adjustment for services furnished during calendar year 2007. CBO estimates the provision will increase Medicare spending by $0.3 billion in 2007 and by $0.5 billion over the 2007-2008 period.

*Payment for Dialysis Services*. Section 103 of the act increases payment rates for dialysis services by 1.6 percent, beginning April 1, 2007. CBO estimates that provision will increase spending by less than $50 million in 2007, by $0.4 billion over the 2007-2011 period, and by $1.1 billion over the 2007-2016 period.

*Extend Expiring Provisions*. The act will increase spending by extending a number of provisions that expired at the end of fiscal year 2006 or would have expired during fiscal year 2007. In general, those extensions will be for one year.

The extension provision with the largest effect on spending is section 201, which will extend for one year the exception from the $1,780 cap on annual spending for therapy services furnished to a Medicare beneficiary if those services are determined to be medically necessary. CBO estimates that provision will increase Medicare spending by $0.4 billion in 2007 and by $0.1 billion in 2008.

Other extensions will increase payment rates for certain pathology services, diagnostic laboratory tests performed in rural hospitals, and payment rates for certain hospitals located in areas where the wage index is lower than in a nearby area. CBO estimates that each of those provisions will increase Medicare spending by about $0.1 billion or less over the 2007-2008 period.

*Administration of Part D Vaccines*. Medicare Part B currently covers the cost of administering a vaccine when the vaccine itself is also covered under Part B[2], but it does not cover the cost of administration of a vaccine covered under Part D (such as the vaccine for shingles). Section 202 will require Part B to cover the cost of administration of such vaccines in 2007, and will require the Part D plan to cover those costs beginning in 2008.

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2. Part B covers: Pneumococcal pneumonia vaccine; hepatitis B vaccine; influenza virus vaccine; and certain other vaccines (for example, tetanus toxiod) when directly related to the treatment of an injury or direct exposure to a disease or condition.

CBO estimates that provision will increase Medicare spending by less than $50 million in 2007, by $0.3 billion over the 2007-2011 period, and by $0.8 billion over the 2007-2016 period.

*Payments to Recovery Audit Contractors*. Section 302 authorizes the Secretary of HHS to enter into contracts with private parties (called "recovery audit contractors") who will identify incorrect payments made by Medicare to health care providers under Parts A and B of the program. From any overpayments recouped, the Secretary is authorized to make payments to the contractors for their services and to allocate funds to the Centers for Medicare & Medicaid Services to manage this audit program.

CBO expects that this program will reduce net Medicare spending—that is, recoveries of overpayments will exceed the payments to contractors, program management costs, and outlays to correct underpayments. Based on information from an ongoing demonstration project, CBO estimates the payments to contractors and associated management costs will average about 25 percent of the amounts recovered, net of outlays to correct underpayments.

However, Scorekeeping Guideline #14 (adopted by the Congress in the conference report for the Balanced Budget Act of 1997) states: "No increase in receipts or decrease in direct spending will be scored as a result of provisions of a law that provides direct spending for administration or program management activities." In consultation with the Committees on the Budget, CBO has concluded that Scorekeeping Guideline #14 applies to this provision (just as it would if the spending were not contingent on amounts collected).

Consequently, CBO's cost estimate for this provision does not reflect the estimated savings from recouping overpayments. CBO estimates that payments to contractors and associated management costs will total $0.1 billion in 2007, $1.7 billion over the 2007-2011 period, and $4.4 billion over the 2007-2016 period.[3]

*Offsetting Adjustment to the Stabilization Fund*. The Medicare Modernization Act of 2003 provided $10 billion for a stabilization fund that the Secretary could use during calendar years 2007 through 2013 to make payments to certain managed care plans that participate in the Medicare Advantage program on a regional or national basis. The act will eliminate the ability of the Secretary of HHS to make payments from that fund during the 2007-2011 period, and will reduce the amount available to be spent from that fund in 2012 and 2013 by $6.5 billion. CBO estimates the provision will have no effect on Medicare spending in 2007, and will reduce spending by $6.5 billion over the 2007-2016 period.

3. Gross savings from the recovery audit program would be about four times those amounts; thus they could total more than $17 billion over 10 years.

*Interactions*. Changes in Medicare spending affect the "benchmarks" that Medicare uses to determine how much the program pays for beneficiaries in the Medicare Advantage program. CBO estimates that the changes in Medicare spending discussed above will have no effect on Medicare Advantage payments in 2007, and will increase them by $0.6 billion over the 2007-2011 period and $0.7 billion over the 2007-2016 period.

Beneficiaries enrolled in Part B of Medicare pay premiums that offset about 25 percent of the cost of those benefits. Therefore, about one-quarter of the changes in Part B spending will be offset by changes in those premium receipts. The Part B premium for 2007 has already been announced and will not be changed. Therefore, the act will have no effect on Part B premium receipts in 2007. CBO estimates that the legislation will increase receipts of Part B premiums by $1.0 million over the 2007-2011 period and by $1.7 billion over the 2007-2016 period.

**Other Health Provisions**. The act will extend the transitional medical assistance and abstinence education programs through June 30, 2007, modify the limits on taxes that states can impose on certain health care providers, and permit Tennessee and Hawaii to collect federal matching funds for payments to certain hospitals. CBO estimates those provisions will increase direct spending by $180 million in 2007 and by $154 million over the 2007-2011 period.

*Transitional Medical Assistance*. Section 401 extends through June 30, 2007, the requirement that state Medicaid programs provide transitional medical assistance (TMA) to certain beneficiaries—usually former recipients of the Temporary Aid to Needy Families program—who otherwise will lose eligibility because of increased earnings.

CBO estimates that the extension of TMA will increase federal Medicaid spending by $130 million in 2007 and by $348 million over the 2007-2011 period. Most of the budgetary effects of the provision will occur after June 30, 2007, because qualifying families will be entitled to up to 12 months of additional eligibility, even if their eligibility runs beyond that date. The extension also will decrease spending in the State Children's Health Insurance Program by an estimated $1 million over the 2007-2011 period.

*Abstinence Education*. Under prior law, funding for the abstinence education program would have expired on December 31, 2006. The act appropriates an estimated $25 million to extend the program through June 30, 2007. Based on the program's past spending patterns, CBO estimates that this provision will increase outlays by $7 million in 2007 and by $22 million over the 2007-2011 period.

*Medicaid Provider Taxes*. Many states finance part of their share of Medicaid spending by imposing taxes on health care providers. States typically impose taxes on a particular type of provider and use the revenues to increase payment rates to those same providers. In the process, states collect federal Medicaid funds to cover a portion of those higher payments. Section 403 reduces the amount of taxes that states may impose on certain classes of providers from 6 percent of gross revenues—the limit set in Medicaid regulations—to 5.5 percent for the period beginning on January 1, 2008, and ending on September 30, 2011. CBO estimates that the provision will reduce Medicaid spending by $260 million over the 2008-2011 period.

*Disproportionate Share Hospital Allotments*. Section 404 will permit Tennessee and Hawaii to collect federal matching funds for payments to certain hospitals that serve a high proportion of Medicaid beneficiaries and uninsured individuals in fiscal year 2007. The act will limit the amount of federal matching funds that each state could receive for those payments to an estimated $84 million and $10 million, respectively. We anticipate that Tennessee will reduce spending in other areas and thus will offset a portion of the $84 million in payments. On balance, CBO estimates that this provision will increase federal spending in Tennessee and Hawaii by a total of $46 million in 2007.

## Direct Spending Effects of Division C—Other Provisions

**Gulf of Mexico Energy Security.** Title I removes the restrictions on leasing certain areas of the Outer Continental Shelf (OCS) for oil and gas development, authorizes direct spending of certain OCS receipts, and offers monetary credits to firms that hold leases in certain areas. CBO estimates that enacting this title will reduce direct spending by $0.9 billion over the 2008-2016 period.

The estimated budgetary impact of this title will vary over time. Allowing leasing in the new areas designated by the legislation will lead to the collection of bonuses, rents, and royalties, which CBO estimates will total $1.5 billion over the 2008-2016 period. Those areas will continue to generate offsetting receipts for decades after 2016.

Under title I, 50 percent of the offsetting receipts collected from leases in the new areas can be spent, without further appropriation action, for payments to states and for activities authorized by the Land and Water Conservation Fund Act. Considering the time lag between when funds are received and when they would become available to spend, CBO estimates that such spending will total $540 million over the 2009-2016 period. Starting in 2017, the title provides additional direct spending authority encompassing 50 percent of the receipts from most other OCS oil and gas leases, subject to a limitation. Starting in 2016, the legislation limits total direct spending under the bill in any year to no more than the sum of the receipts from the new areas plus $500 million.

Finally, the legislation offers monetary credits to firms that hold OCS leases in areas that are subject to a temporary moratorium on new leasing activity. Firms can use such credits as cash to make royalty or other payments that they would otherwise owe to the Department of the Interior (DOI). Based on information from DOI, CBO estimates that those credits will be worth $84 million and will be redeemed soon after they are made available.

**Surface Mining Control and Reclamation Act Amendments of 2006.** Title II makes several changes to the Surface Mining Control and Reclamation Act and the Internal Revenue Code of 1986 that will increase direct spending. CBO estimates that enacting that title will increase direct spending by $40 million in 2007, $2.1 billion over the 2007-2011 period, and $4.9 billion over the next 10 years.

Most of the outlays resulting from this title—$3.8 billion over the next 10 years—will be spent by the Office of Surface Mining, primarily to support efforts to reclaim land that has been mined for coal and for other public purposes. Additional spending—$1.1 billion over 10 years—will pay for health benefits for certain retired coal miners and their dependents and survivors.

*Increased Spending by the Office of Surface Mining.* Starting in fiscal year 2008, the legislation authorizes new direct spending of certain fees collected from coal producers. The OSM will pay a portion of those fees directly to the states where they are generated; the agency will spend additional amounts on grants to support reclamation efforts and other public purposes. The legislation also directs OSM to make payments to coal-producing states based on the balances in the Abandoned Mine Land (AML) fund at the start of fiscal year 2008. Based on information from OSM about anticipated levels of future coal production, resulting fees, and the magnitude of AML balances, CBO estimates that payments and grants under the legislation will cost $3.9 billion over the 2008-2016 period. (Roughly $2 billion of that amount will come from the general fund of the Treasury; the remainder will come primarily from fees collected under the legislation, as described earlier in the "REVENUES" section of this cost estimate.)

*Increased Federal Spending for Health Benefits of Certain Individuals.* Additional spending will occur under the legislation for health benefits of certain retired coal miners and their dependents and survivors who are eligible to receive retiree health benefits through the United Mine Workers of America Benefit Funds. Based on information from the Trustees of those funds regarding projected fund balances, projections of the number of eligible beneficiaries, and anticipated levels of income to and spending from such funds, CBO estimates such spending will total $40 million in 2007 and $1.1 billion over the 2007-2016 period.

**Cotton Provision.** Title IV establishes a Pima Cotton Trust Fund, which will be in effect until October 1, 2008. Amounts will be transferred to the trust fund from the general fund of the Treasury and then distributed to the U.S. pima cotton industry. CBO estimates that this provision will increase outlays by $16 million in 2007 and an additional $16 million in 2008.

**Direct Spending Effects of Division D—Temporarily Modify Certain Rates of Duty and Make Other Technical Amendments to the Trade Laws, Extend Certain Trade Preference Programs, and Other Purposes**

Titles II and III of Division D will affect outlays for reliquidations (refunds) of certain entries of goods imported into the United States. Because these provisions require the government to pay interest, in addition to refunding duties paid, CBO estimates that they will increase outlays by $3 million in 2007. Most of this outlay effect comes from a provision that requires interest to be paid on certain duties that were refunded pursuant to prior miscellaneous trade bills.

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