CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

February 20, 2003

S. 256
CARE Act of 2003

As reported by the Senate Committee on Finance on February 5, 2003

SUMMARY

S. 256 would provide taxpayers with several incentives for charitable giving, restrict tax-shelter activity, increase funding for the Social Services Block Grant (SSBG), and increase the amount that could be transferred from the Temporary Assistance to Needy Families (TANF) program to SSBG.

CBO and the Joint Committee on Taxation (JCT) estimate that enacting S. 256 would decrease governmental receipts by $596 million in 2003 and by about $1.7 billion over the 2003-2008 period. Over the 2003-2013 period, however, enacting the legislation would increase governmental receipts by about $1.5 billion. The bill also would increase direct spending by $76 million in 2003, and $1.4 billion over the 2003-2008 period (with a comparable total for the 2003-2013 period).

The bill also would authorize the appropriation of $83 million in 2003 and $491 million over the 2003-2008 period for administering an expanded Individual Development Account (IDA) program and handling filing of tax-exempt organizations. Assuming that those amounts are appropriated, CBO estimates that the resulting outlays would be $439 million over the 2003-2008 period.

CBO has reviewed title IV of the bill and has determined that it contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). That title would benefit states by increasing their ability to transfer TANF funds to SSBG and also by increasing funding for SSBG in 2003 and 2004. JCT has determined that the remaining provisions of the bill contain no intergovernmental mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

JCT has determined that the provisions relating to tax shelters contain private-sector mandates. The total cost of complying with those mandates would exceed the threshold

established by UMRA ($117 million in 2003, adjusted annually for inflation). CBO has determined that title IV of the bill contains no private-sector mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 256 is shown in Table 1. All revenue estimates were provided by JCT. The spending under the bill falls in budget functions 500 (education, training, employment, and social services), 600 (income security), and 800 (general government).

BASIS OF ESTIMATE

For this estimate, CBO assumes the CARE Act will be enacted in the spring of 2003 and that the authorized amounts will be appropriated for each year. These estimates would change if the bill were enacted later in the year. We estimated the bill's budgetary effect using CBO's January 2003 baseline assumptions, updated to reflect legislation that has cleared the Congress, particularly the Consolidated Appropriations Resolution, 2003 (H.J. Res. 2).

Revenues

All estimates were provided by JCT. A number of provisions would reduce revenues, and several would increase revenues. All together, the bill's provisions would reduce governmental receipts by $596 million in 2003 and by about $1.7 billion over the 2003-2008 period. Over the 2003-2013 period, however, enacting the legislation would increase revenues by about $1.5 billion.

Most of the revenue reductions would occur from the provisions that allow tax-free distributions from individual retirement accounts (IRAs) for charitable purposes, a 25 percent exclusion of capital gains for sales of land or water for conservation purposes, and the deduction of a certain amount of charitable contributions by taxpayers who do not itemize. Other provisions that would reduce revenues include enhancing deductions for contributions of food inventories, adjusting the tax basis of certain stock for charitable contributions, and providing a tax credit to eligible financial entities for matching contributions to Individual Development Accounts made by certain low-income workers. These provisions together would reduce revenues by $326 million in 2003, by about $5.7 billion over the 2003-2008 period, and by about $9.6 billion over the 2003-2013 period. The remaining provisions to provide incentives to increase charitable giving would decrease receipts by $48 million in 2003, by about $1.0 billion over the 2003-2008 period, and by about $2.1 billion over the 2003-2013 period.

TABLE 1. ESTIMATED BUDGETARY IMPACT OF S. 256

	By Fiscal Year, in Millions of Dollars					
	2003	2004	2005	2006	2007	2008
Changes in Revenue						
Estimated Revenues	-596	-1,252	-750	310	277	347
Changes in Direct Spending						
Increased SSBG Funding						
Budget Authority	275	1,100	0	0	0	0
Estimated Outlays	110	990	231	44	0	0
TANF Effect of New SSBG Funding						
Budget Authority	0	0	0	0	0	0
Estimated Outlays	-34	-114	25	41	46	36
Increased Transfer Authority from TANF to SSBG						
Budget Authority	0	0	0	0	0	0
Estimated Outlays	0	114	84	-82	-49	-50
Total Changes in Direct Spending						
Estimated Budget Authority	275	1,100	0	0	0	0
Estimated Outlays	76	990	340	3	-3	-14
Changes in Spending Subject to Appropriation						
Individual Development Accounts						
Authorization Level	0	4	1	1	1	1
Estimated Outlays	0	1	1	1	1	2
Tax-Exempt Organizations						
Authorization Level	83	80	80	80	80	80
Estimated Outlays	23	90	80	80	80	80
Total						
Authorization Level	83	84	81	81	81	81
Estimated Outlays	23	91	81	81	81	82

NOTES: SSBG = Social Services Block Grant.
TANF = Temporary Assistance to Needy Families.

Most of the revenue increases would result from provisions restricting tax-shelter activity. The provision clarifying the economic substance doctrine and the related penalty provisions would decrease revenues by $258 million in 2003, but would increase revenues by about $4.3 billion over the 2003-2008 period and $11.5 billion over the 2003-2013 period. The remaining provisions, which relate to reportable transactions and tax shelters and modification of the substantial understatement penalty and certain other penalties, would increase revenues by $36 million in 2003, by $686 million over the 2003-2008 period, and by about $1.7 billion over the 2003-2013 period.

TABLE 2. ESTIMATED REVENUE EFFECTS OF S. 256

	By Fiscal Year, in Millions of Dollars					
	2003	2004	2005	2006	2007	2008
Major Revenue Reducers						
Charitable Contribution Deduction for Nonitemizers	-204	-1,368	-1,218	0	0	0
Tax-Free Distributions from IRAs for Charitable Purposes	-48	-156	-248	-270	-258	-244
Enhanced Deductions for Contributions to Food Inventories	-59	-154	-173	-185	-193	-201
25 Percent Exclusion of Capital Gains Taxes for Sales of Land or Water for Conservation Purposes	-7	-56	-60	-67	-70	-74
Adjustment to Basis of S Corporation Stock for Certain Charitable Contributions	-8	-22	-30	-33	-37	-41
Tax Credit for IDA Program Expansion	0	0	-24	-44	-39	-61
Other Provisions	-48	-143	-238	-268	-197	-151
Subtotal	-374	-1,899	-1,991	-867	-794	-772
Major Revenue Raisers						
Clarification of the Economic Substance Doctrine and Related Penalty Provisions	-258	552	1,119	1,042	927	965
Provisions Relating to Reportable Transactions and Tax Shelters	35	92	115	119	120	124
Other Provisions	1	3	7	16	24	30
Subtotal	-222	647	1,241	1,177	1,071	1,119
Net Effect on Revenues						
Estimated Revenues	-596	-1,252	-750	310	277	347

NOTES: Components may not sum to totals because of rounding.
IRA = Individual Retirement Account
IDA = Individual Development Account

Direct Spending

Title IV would increase the funding level for the Social Services Block Grant in 2003 and 2004 and raise the percentage of the TANF grant that states could transfer to SSBG. SSBG is permanently authorized at $1.7 billion annually. Title IV would increase funding for 2003 to $1.975 billion and for 2004 to $2.8 billion. Funding would return to $1.7 billion in 2005 and later. CBO estimates that states would spend the new funds a little more slowly than regular SSBG funds, raising outlays by $76 million in 2003 and about $1.4 billion over the 2003-2008 period. Title IV also would allow states to maintain the authority to transfer up to 10 percent of TANF funds to SSBG. That authority is scheduled to fall to 4.25 percent in 2004 and after. In recent years, states have transferred about $1 billion annually.

Those provisions would affect TANF spending in two ways. First, the additional SSBG spending would tend to reduce the incentives for TANF transfers to SSBG. CBO estimates that change would lower TANF spending by $148 million over the 2003-2004 period, but raise it by a similar amount over the 2005-2008 period. Second, maintaining the transfer authority at the higher level would make it easier for states to spend their TANF grants and would tend to accelerate spending relative to current law. (Based on recent state transfers, CBO expects that states would transfer an additional $400 million in 2004 under the provision, but because some of this money would have been spent within the TANF program anyway, only $114 million of additional spending would occur in 2004.) The combined effect of the provisions would be to increase net TANF spending over the 2003-2008 period by $17 million, but lower it by $17 million over the 2009-2013 period. Thus, there would be no net impact on TANF spending over the 11-year period as a whole.

Spending Subject to Appropriation

Title V would augment the existing Individual Development Account program by providing an IDA tax credit to qualified financial institutions for matching the IDA savings of low-income individuals. The effect of those tax credits on reducing federal revenues is estimated to total $168 million over the 2005-2008 period. (Those effects were included in the totals discussed in the earlier section on revenues.) The bill also would authorize the appropriation of $2.5 million for a report on cost and outcomes of IDAs and $1 million in each year 2004 through 2011 for other administrative activities. Assuming appropriation of the authorized amounts, CBO estimates outlays of $1 million in 2004, $6 million over the 2004-2008 period, and $10 million over the eight-year period.

The bill also would disregard any funds in IDA accounts for purposes of qualifying individuals for federal means-tested programs. It is possible that expanding the IDA program could allow certain people with assets to participate in means-tested programs who would otherwise be ineligible, but CBO estimates that would have an insignificant effect (less than $500,000 a year) on federal spending. While there are limited data on current IDA participants, the available information indicates most participants would not deposit enough into their accounts to disqualify themselves from any federal means-tested program.

Title VI would authorize the annual appropriation of $80 million for the Internal Revenue Service for its administrative costs related to filing of tax-exempt organizations. It would authorize $3 million in fiscal year 2003 for the Department of Treasury for its administrative costs related to filing of section 527 political organizations.

Assuming the appropriation of the authorized amounts, CBO estimates that implementing those provisions would cost $23 million in 2003 and $433 million over the 2003-2008 period.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

CBO has reviewed title IV of the bill and has determined that it contains no intergovernmental mandates as defined in UMRA. That title would benefit states by increasing their ability to transfer TANF funds to SSBG and also by increasing funding for SSBG in 2003 and 2004.

JCT has determined that the remaining provisions of the bill contain 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

JCT has determined that the provisions relating to tax shelters contain private-sector mandates, and that the direct cost of complying with those mandates would exceed the threshold established by UMRA ($117 million in 2003, adjusted annually for inflation), in 2003 and thereafter. CBO has determined that title IV of the bill contains no private-sector mandates as defined in UMRA.

ESTIMATE PREPARED BY:

Federal Revenues: Annabelle Bartsch

Federal Spending:
- Social Services Block Grant: Sheila Dacey
- Individual Development Accounts: Donna Wong
- Department of Treasury: Matthew Pickford

Impact on State, Local, and Tribal Governments: Leo Lex

Impact on the Private Sector: Kate Bloniarz

ESTIMATE APPROVED BY:

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis

G. Thomas Woodward
Assistant Director for Tax Analysis