CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 22, 1999

S. 1389

United States-Caribbean Basin Trade Enhancement Act

As reported by the Senate Committee on Finance on July 16, 1999

SUMMARY

S. 1389 would provide tariff and quota treatment similar to that accorded to products under the North American Free Trade Agreement (NAFTA) to certain products of countries that benefit under the Caribbean Basin Initiative trade program. In addition, the legislation would amend the Internal Revenue Code to prohibit the use of the installment method of accounting and to modify the pledge rule for dispositions of property. The bill would also increase by $3 the share of the excise tax on rum that is distributed to Puerto Rico and the Virgin Islands. The higher share would apply only to assessments made between July 1, 1999, and September 30, 1999.

CBO and the Joint Committee on Taxation (JCT) estimate that enacting the legislation would increase government receipts by $511 million over the 1999-2004 period. In addition, CBO estimates that direct spending would increase by $16 million in fiscal year 1999. Because the bill would affect receipts and direct spending, pay-as-you-go procedures would apply. CBO estimates that implementing the bill's provisions would not significantly affect spending subject to appropriation.

The bill contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). The legislation contains private-sector mandates that would prohibit the use of the installment method of accounting and modify the pledge rule for dispositions of property. JCT estimates that the costs of the mandates would exceed the threshold for private-sector mandates established in UMRA ($100 million in 1996, adjusted annually for inflation) in fiscal years 2000 through 2004.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the bill is shown in the following table.

	By Fiscal Year, in Millions of Dollars										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
CHANGES IN REVENUES											
Estimated Revenues											
Carribean Basin trade	0	-252	-260	-272	-289	-309	-83	0	0	0	0
Repeal installment method for most taxpayers, adjust pledge rules	4	477	677	406	257	72	8	21	35	48	62
Net Revenue Changes	4	225	417	134	-32	-237	-75	21	35	48	62
CHANGES IN DIRECT SPENDING											
Spending Under Current Law[a]											
Estimated Budget Authority	290	290	290	290	290	290	290	290	290	290	290
Estimated Outlays	290	290	290	290	290	290	290	290	290	290	290
Proposed Changes											
Estimated Budget Authority	16	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	16	0	0	0	0	0	0	0	0	0	0
Spending Under S. 1389											
Estimated Budget Authority	306	290	290	290	290	290	290	290	290	290	290
Estimated Outlays	306	290	290	290	290	290	290	290	290	290	290

NOTE: Implementing the bill would also increase spending subject to appropriation, but CBO estimates that such costs would not be significant.

a. The amounts shown are estimated payments to Puerto Rico and the Virgin Islands for their share of excise taxes collected on rum produced in or brought to the United States.

BASIS OF ESTIMATE

For the purposes of this estimate, CBO assumes that this bill will be enacted before the end of fiscal year 1999.

Revenues

The bill would offer immediate duty-free and quota-free treatment to certain articles of apparel assembled in a beneficiary country. Products covered under this provision include articles assembled from fabric formed in the United States from yarn made in the United States (including fabrics that have undergone certain additional processing in a beneficiary country), articles cut in a beneficiary country from fabric formed of U.S. yarn and assembled with U.S. thread, and handmade or folklore articles from beneficiary countries. Based on

1998 collections data, CBO estimates that about $6 billion in goods would enter the United States under this provision in fiscal year 2000. Under current law, most of the products covered in this provision enter under a special subheading in the Harmonized Tariff Schedule that allows for duties to be paid only on the value added to the product in the beneficiary country. CBO estimates that this provision would reduce receipts by $244 million in fiscal year 2000 and by $1,422 million over the 2000-2005 period.

The legislation would also grant NAFTA parity to other articles imported into the United States from beneficiary countries, including luggage and handbags, certain leather goods, footwear, tuna, petroleum, watches, and watch parts. Based on recent collections data, CBO estimates that S. 1389 would reduce receipts by $7 million in fiscal year 2000 and by $43 million over the 2000-2005 period.

The Joint Committee on Taxation estimated that repealing the installment method of accounting and modifying the pledge rule for dispositions of property would increase revenues by $2.1 billion over the 1999-2009 period.

Direct Spending

Under current law, a tax of $13.50 per proof gallon is assessed on distilled spirits produced in or brought into the United States. The treasuries of Puerto Rico and the Virgin Islands receive $10.50 of the tax assessed on rum manufactured in either territory. In addition, the territories receive payments, at a similar rate, on all rum imported into the United States from any foreign country. Those payments to Puerto Rico and the Virgin Islands are recorded as outlays in the budget.

Under the bill, the governments of Puerto Rico and the Virgin Islands would receive the full $13.50 per proof gallon for assessments made between July 1, 1999, and September 30, 1999. Based on recent tax and payment data, CBO estimates that increasing the territories' share of the excise tax would increase direct spending by $16 million in fiscal year 1999.

Spending Subject to Appropriation

The bill would require the Administration to determine whether Caribbean Basin countries are eligible to benefit from the bill's preferential trade provisions and to monitor their compliance with certain requirements. The Administration already performs similar responsibilities under the Caribbean Basin Economic Recovery Act. Based on information from the Office of the United States Trade Representative and other affected agencies, CBO estimates that implementing these provisions would not significantly increase those agencies' costs.

The legislation would also amend several existing reporting requirements of the Office of the United States Trade Representative and the International Trade Commission. The amendments would primarily change when and how often the reports are due. CBO estimates that those changes would increase spending subject to appropriation by less than $200,000 annually.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and government receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in Receipts	4	225	417	134	-32	-237	-75	21	35	48	62
Changes in Outlays	16	0	0	0	0	0	0	0	0	0	0

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

The bill contains no intergovernmental mandates as defined in UMRA. CBO estimates that the governments of Puerto Rico and the Virgin Islands would receive an additional $16 million in 1999 as a result of the bill's enactment. The bill would also require the government of Puerto Rico to transfer a portion (50 cents per proof gallon of rum) of future payments from the excise tax to the Puerto Rico Conservation Trust Fund.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

The legislation contains private-sector mandates that would prohibit the use of the installment method of accounting and modify the pledge rule for dispositions of property. JCT estimates that the mandates would cost $1.9 billion over the 2000-2004 period and that the cost would exceed the threshold for private-sector mandates established in UMRA ($100 million in 1996, adjusted annually for inflation) in fiscal years 2000 through 2003.

ESTIMATE PREPARED BY:

Federal Revenues: Hester Grippando
Federal Spending: John Righter and Sunita D'Monte
Impact on State, Local, and Tribal Governments: Leo Lex

ESTIMATE APPROVED BY:

Robert A. Sunshine
Deputy Assistant Director for Budget Analysis

G. Thomas Woodward
Assistant Director for Tax Analysis