CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 24, 2004

S. 882
Tax Administration Good Government Act of 2004

As reported by the Senate Committee on Finance on May 4, 2004, and passed by the Senate (as H.R. 1528) on May 19, 2004

SUMMARY

S. 882 would make a number of changes to the Internal Revenue Code and the operations of the Internal Revenue Service (IRS). Specifically, the bill would reform several penalty and interest provisions in the Internal Revenue Code; establish a uniform definition of a qualifying child for determining eligibility for certain tax credits, exemptions, and filing status; establish regulations for preparers of tax returns and providers of refund loans; and extend IRS user fees. The bill also would authorize appropriations to combat tax avoidance transactions, establish an IRS Disaster Response Team, and make changes to several aspects of the U.S. Tax Court system, including pensions and compensation. The provisions of the bill would generally take effect upon enactment.

The Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) estimate that enacting the bill would increase federal revenues by $170 million in 2004 and $451 million over the 2004-2009 period, and decrease revenues by $203 million over the 2004-2014 period. CBO estimates that the bill would increase direct spending by $1 million in 2004, $39 million over the 2004-2009 period, and $78 million over the 2004-2014 period. Finally, CBO estimates that implementing the bill would increase discretionary spending by $1.6 billion over the 2004-2009 period, assuming appropriation of the necessary sums.

CBO and JCT have determined that the provisions of S. 882 contain no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

JCT has determined that S. 882 contains two private-sector mandates as defined by UMRA. The cost of complying with those mandates would exceed the annual threshold for private-

sector mandates established by UMRA ($120 million in 2004, adjusted annually for inflation) in each of the first five years after enactment.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 882 is shown in the following table. The spending impact of the legislation falls within budget functions 600 (income security) and 800 (general government).

	By Fiscal Year, in Millions of Dollars										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CHANGES IN REVENUES											
Title I: Tax Administration and Taxpayer Safeguards	24	31	7	-3	-3	-3	-3	-3	-4	-4	-4
Title II: Penalty and Interest Provisions	-1	-33	-74	-20	-21	-24	-31	-401	-325	-344	-365
Title III: U.S. Tax Court Modernization	0	*	*	*	*	*	*	*	*	*	*
Title V: Simplification	0	-67	-140	-143	-149	-160	-195	-188	-75	-75	-76
Title VI: Revenue Raisers											
Extension of IRS User Fees	0	25	33	35	38	39	41	43	45	47	0
Other Provisions	147	167	169	178	193	205	218	234	253	269	288
Estimated Revenues	170	123	-5	47	58	57	30	-315	-106	-107	-157
CHANGES IN DIRECT SPENDING											
FMS Administrative Costs											
Estimated Budget Authority	1	7	7	7	7	7	7	8	8	8	8
Estimated Outlays	1	7	7	7	7	7	7	8	8	8	8
Tax Court Retirement Program											
Estimated Budget Authority	0	3	*	*	*	*	*	*	*	*	*
Estimated Outlays	0	3	*	*	*	*	*	*	*	*	*
Total Changes in Direct Spending											
Estimated Budget Authority	1	10	7	7	7	7	7	8	8	8	8
Estimated Outlays	1	10	7	7	7	7	7	8	8	8	8

Continued

	By Fiscal Year, in Millions of Dollars										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CHANGES IN SPENDING SUBJECT TO APPROPRIATION											
Tax Court Retirement Program											
Estimated Authorization Level	0	2	2	2	2	2	2	2	2	2	2
Estimated Outlays	0	2	2	2	2	2	2	2	2	2	2
Spending from IRS User Fees											
Estimated Authorization Level	0	3	3	4	4	4	4	4	5	5	0
Estimated Outlays	0	3	3	4	4	4	4	4	5	5	0
Tax Law Enforcement											
Authorization Level	0	300	300	300	300	300	300	300	300	300	300
Estimated Outlays	0	278	297	300	300	300	300	300	300	300	300
Low-Income Taxpayer Clinics											
Authorization Level	0	4	4	4	4	4	4	4	4	4	4
Estimated Outlays	0	4	4	4	4	4	4	4	4	4	4
Expanded Access to Financial Institutions											
Estimated Authorization Level	0	10	0	0	0	0	0	0	0	0	0
Estimated Outlays	0	7	3	0	0	0	0	0	0	0	0
Disaster Response Team											
Estimated Authorization Level	0	5	5	5	5	5	5	5	5	5	5
Estimated Outlays	0	5	5	5	5	5	5	5	5	5	5
Regulation of Tax Return Preparers and Providers of Refund Anticipation Loans											
Estimated Authorization Level	0	15	10	0	0	0	0	0	0	0	0
Estimated Outlays	0	15	10	0	0	0	0	0	0	0	0
Studies											
Estimated Authorization Level	0	2	*	*	*	*	*	*	*	*	*
Estimated Outlays	0	2	*	*	*	*	*	*	*	*	*
FMS Administrative Costs											
Estimated Authorization Level	0	-7	-7	-7	-7	-7	-7	-8	-8	-8	-8
Estimated Outlays	0	-7	-7	-7	-7	-7	-7	-8	-8	-8	-8
Total Changes in Discretionary Spending											
Estimated Authorization Level	0	334	317	308	308	308	308	307	308	308	303
Estimated Outlays	0	309	317	308	308	308	308	307	308	308	303

SOURCES: CBO and the Joint Committee on Taxation.

NOTES: * = Change of less than $500,000.
IRS = Internal Revenue Service.
FMS = Financial Management Service.
Details may not sum to totals due to rounding.

BASIS OF ESTIMATE

This estimate assumes that the bill will be enacted by July 1, 2004.

Revenues

With the exception of the extension of IRS user fees, JCT provided all the revenue estimates. CBO and JCT estimate that the provisions contained in S. 882 would increase federal revenues by $170 million in 2004 and $451 million over the 2004-2009 period, and decrease revenues by $203 million over the 2004-2014 period.

Title I of S. 882 would make numerous changes to existing tax law intended to improve tax administration and enhance taxpayer safeguards. Two provisions have the largest estimated effect on revenues. Waiving IRS user fees for installment agreements that use automated withdrawals would reduce revenues by an estimated $33 million between 2004 and 2014. Authorizing the IRS to enter into installment agreements that provide for partial payment would increase revenues by $67 million over the 2004-2006 period. In total, JCT estimates enacting the provisions of title I would increase federal revenues by $24 million in 2004, $54 million over the 2004-2009 period, and $37 million over the 2004-2014 period.

The provisions of title II would alter several penalty and interest-related provisions of existing tax law. On net, JCT estimates that these provisions would reduce governmental revenues by $1 million in 2004, $173 million over the 2004-2009 period, and $1.6 billion over the 2004-2014 period. Several of these provisions would significantly reduce revenues over the 2004-2014 period. These include provisions that would increase certain thresholds above which individual and corporate taxpayers must make estimated payments of tax liability and expand existing rules for interest netting. Altogether, those provisions would reduce revenues by an estimated $3.3 billion over the 2004-2014 period. Most of that reduction would occur beginning in fiscal year 2011, when the interest netting provision would take effect. The remaining provisions would increase federal revenues by about $1.7 billion over the 2004-2014 period. Most of this increase would result from extending by six months the time during which interest and penalties continue to accrue for taxpayers otherwise in good standing who do not receive notice from the IRS regarding their unpaid taxes.

Title III would require judges who elect to be covered by the new retirement program established by the bill to contribute 1 percent of their salary toward the program. Judges also would have to make a lump-sum contribution for previous years they worked for the court equal to what they would have contributed if the new retirement program had been in existence. CBO estimates that these changes in employee contributions would have a negligible effect on revenues.

Title V would establish a uniform definition of a qualifying child for determining eligibility for certain tax exemptions, credits, and filing status. The definition would apply for tax years after 2005. JCT estimates that the new definition would decrease federal revenues by $659 million over the 2004-2009 period and about $1.3 billion over the 2004-2014 period.

Title VI contains numerous provisions, all of which would increase revenues over the 2004-2014 period. CBO and JCT estimate that revenues would increase by $147 million in 2004, about $1.1 billion over the 2004-2009 period, and about $2.3 billion over the 2004-2014 period. Nearly half of the increase would come from provisions relating to reportable transactions and tax shelters, which JCT estimates would result in additional revenues of about $1.4 billion between 2004 and 2014. Title VI also includes an extension of IRS user fees through September 30, 2013. Currently, the fees are set to expire on December 31, 2004. CBO estimates that this provision would increase revenues by $170 million over the 2005-2009 period and $346 million over the 2005-2014 period.

Direct Spending

Financial Management Service Fees. Section 110 would allow the Financial Management Service (FMS) to retain and spend a portion of the amounts withheld under the Federal Payment Levy Program that FMS administers for the Internal Revenue Service. The levy program allows the IRS to collect a portion of certain payments disbursed by FMS to delinquent taxpayers. Under current law, IRS pays the FMS administrative costs for this program from its annual appropriation. The legislation would allow FMS to retain a portion of the funds it collects to cover its costs. CBO estimates that this provision would increase direct spending and reduce spending subject to appropriation by $7 million to $8 million a year.

Tax Court Retirement Program. Title III would establish a new retirement program for special judges of the U.S. Tax Court and rename those positions as magistrate judges of the Tax Court. Under current law, most special trial judges participate in either the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS), depending on when they first entered government service. The bill would provide all current and future magistrate judges the option of being covered by the new retirement program or continuing their coverage under CSRS or FERS. Information provided by the U.S. Tax Court indicates that about 10 special trial judges currently work for the court and that these judges have been employed by the government for an average of 34 years. All of these special trial judges are covered under CSRS and earn about $140,000 annually.

Current or newly appointed judges who opt to be covered by the new retirement program would be entitled to refunds of employee contributions made to either CSRS or FERS. The employee contribution rate for most workers covered by CSRS is 7 percent, while the rate for FERS is 0.8 percent. CBO expects that all of the special judges employed by the court would elect to have their retirement contributions refunded and be covered by the new retirement program. Under that assumption, CBO estimates that enacting S. 882 would increase direct spending for refunds of employee retirement contributions by $3 million in 2005 and less than $500,000 for each year thereafter.

Both CSRS and FERS are defined-benefit pension programs that provide retirement annuities based on the final years of salary and amount of creditable service. For workers with the age and service history of the current special judges of the Tax Court, CSRS replaces about 60 percent of a retiree's salary and FERS replaces about 30 percent, although those in CSRS do not earn Social Security credits while those in FERS do. The new retirement program for special trial judges, like that for regular Tax Court judges, would replace 100 percent of a judge's final salary upon retirement. CBO estimates that the difference between what these judges would have gotten under CSRS and what they would get under the new retirement program would increase federal spending by less than $500,000 annually during the 2005-2014 period, but would total nearly $2 million over the 10-year period.

Section 306 of the bill would allow the Tax Court to use fees collected from attorneys before the court to pay for services for taxpayers who represent themselves. Under current law, such fees may only be used to employ independent counsel to pursue disciplinary matters. Based on information from the Tax Court, CBO estimates that enacting section 306 would increase direct spending in the first few years of the period. However, such increases would not be significant.

S. 882 contains several other provisions that could affect direct spending. These include provisions to provide survivor annuities for assassinated Tax Court judges and changes to the eligibility standards for Tax Court judges under the Federal Employees' Group Life Insurance program. CBO estimates that these provisions would increase federal spending by less than $500,000 annually.

Spending Subject to Appropriation

Tax Court Retirement Program. Title III would require the Secretary of the Treasury to establish a trust fund for the new retirement program. This fund, to be called the Tax Court Judicial Officers' Retirement Fund, would receive contributions from the agency and its employees and pay benefits to retirees and survivors. The bill specifies that the Tax Court would make adequate contributions to eliminate the program's unfunded liability, taking employee contributions into account. Information provided to CBO by the Tax Court indicates that this payment would amount to about $2 million annually during the 2005-2014 period, subject to the availability of appropriated funds.

In addition, the bill allows those employed by the Federal Executive Service before appointment to the Tax Court the right to collect a lump-sum payment for all unused annual leave. CBO estimates that this provision would have a negligible effect on outlays.

Extension of IRS User Fees. Section 631 would extend the authority of the IRS to charge taxpayers fees for certain rulings, opinion letters, and determinations through September 30, 2013. The bill would authorize the IRS to retain and spend a portion of the fees collected, subject to appropriation. Based on the historical level of fees spent, CBO estimates that implementing this provision would cost $18 million over the 2005-2009 period and about $35 million over the 2005-2014 period, subject to the appropriation of the necessary amounts.

Tax Law Enforcement. Section 614 would authorize the appropriation of $300 million annually beginning in fiscal year 2004 for the IRS to enforce tax laws to combat tax avoidance transactions, including tax shelters and offshore accounts. Assuming the appropriation of the specified amounts beginning in 2005, CBO estimates that implementing this provision would cost about $1.5 billion over the 2005-2009 period and about $3 billion during the 2005-2014 period.

Low-Income Taxpayer Clinics. Under current law, the Secretary of the Treasury is authorized to provide up to $6 million per year to low-income taxpayer clinics. Section 129 would increase this authorization level to $10 million per year. Assuming the appropriation of the specified amounts beginning in 2005, CBO estimates that implementing this provision would cost $4 million annually and $40 million over the 2005-2014 period.

Expanded Access to Financial Institutions. Section 130 would authorize the appropriation of $10 million to the Secretary of the Treasury to award demonstration project grants to tax-exempt eligible entities, such as specific tax-exempt organizations, certain federally insured depository institutions, state and local government agencies, and labor organizations, to provide tax preparation assistance to individuals establishing an account in a federally insured depository institution. Assuming appropriation of the specified amount, CBO estimates that implementing this provision would cost $10 million over the 2005-2009 period.

Disaster Response Team. Section 132 directs the Secretary of the Treasury to create a permanent Disaster Response Team in the IRS, which, in coordination with the Federal Emergency Management Agency, would assist in resolving tax issues related to a Presidentially declared disaster. The team would be staffed 24 hours per day and have a toll-free phone number and website. Based on information from the Treasury and assuming the appropriation of the necessary amount, CBO estimates that this provision would cost $5 million annually.

Regulation of Tax Return Preparers and Providers of Refund Anticipation Loans. Section 141 would authorize the Secretary of the Treasury to regulate the practice of preparers of federal income tax returns and providers of refund anticipation loans. Paid preparers of more than five federal income tax returns would be required to pass an annual examination and meet standards of conduct in order to register with the IRS. Under the bill, providers of refund anticipation loans would have to provide specific information to taxpayers. Based on information from the Treasury Department and assuming the appropriation of the necessary amounts, CBO estimates that implementing this provision would cost $25 million over the 2005-2006 period. After 2006, the IRS expects that the program would be fully funded through user fees.

Studies. S. 882 would require the Treasury to complete several studies on tax issues. Assuming appropriation of the necessary amounts, CBO estimates that implementing these provisions would cost $2 million in fiscal year 2005 and small amounts thereafter.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

JCT and CBO have determined that S. 882 contains no intergovernmental mandates and would not affect the budgets of state, local, or tribal governments.

JCT has determined that the tax provisions of S. 882 contain two private-sector mandates as defined in UMRA: (1) the tax shelter curtailment provisions relating to reportable transactions and tax shelters; and (2) the provision relating to the denial of deductions for certain fines, penalties, and other amounts. The cost of complying with those mandates would exceed the annual threshold for private-sector mandates established by UMRA ($120 million in 2004, adjusted annually for inflation) in each of the first five years after enactment. JCT has determined that the cost of complying with the two mandates would be no greater than the estimated revenue effects of the provisions. CBO has reviewed the remaining provisions of the bill and determined that they contain no private-sector mandates.

PREVIOUS CBO ESTIMATE

On April 8, 2003, CBO prepared a cost estimate for the version of H.R. 1528 that was ordered reported by the House Committee on Ways and Means on April 3, 2003. Many of the provisions in the two version of the bill are different, and the assumed enactment dates differ as well. The estimated budgetary impact of the two versions reflects those differences.

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