CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 26, 2004

H.R. 4520
American Jobs Creation Act of 2004

As cleared by the Congress on October 11, 2004, and signed by the President on October 22, 2004

SUMMARY

H.R. 4520 repeals the exclusion for a portion of income earned by exporters (so-called extraterritorial income), allows a deduction for income attributable to production in the United States, alters numerous other tax laws for both domestic and foreign corporations, and provides individuals with an optional deduction for state and local sales taxes (in place of state and local income taxes.) In addition to making many other changes to tax law, the act also makes several changes to the federal tobacco production quota program and extends both Internal Revenue Service (IRS) and customs user fees through September 30, 2014. The provisions of the act have various effective and sunset dates.

The Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) estimate that this legislation will decrease federal revenues by about $4.9 billion in 2005, $10.1 billion over the 2005-2009 period, and $6.8 billion over the 2005-2014 period. CBO estimates that H.R. 4520 will increase outlays resulting from direct spending by $764 million in 2005, but will decrease direct spending by about $1.4 billion over the 2005-2009 period and $6.8 billion over the 2005-2014 period. On balance, H.R. 4520 will increase deficits by an estimated $5.7 billion in 2005 and $8.7 billion over the 2005-2009 period, and have a very small effect on deficits over the 2005-2014 period—excluding effects on discretionary spending and debt service (i.e., interest effects).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the act is shown in Table 1. The spending effects of the legislation fall within budget functions 270 (energy), 300 (natural resources and environment), 350 (agriculture), 550 (health), 570 (Medicare), 750 (administration of justice), and 800 (general government).

TABLE 1. SUMMARY OF BUDGETARY EFFECTS OF H.R. 4520, AS ENACTED

	By Fiscal Year, in Millions of Dollars									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CHANGES IN REVENUES										
Estimated Revenues	-4,927	-8,284	-4,711	1,987	5,832	1,607	850	826	224	-207
CHANGES IN DIRECT SPENDING										
Estimated Budget Authority	764	-456	-481	-575	-678	-782	-958	-1,101	-1,202	-1,324
Estimated Outlays	764	-456	-481	-575	-678	-782	-958	-1,101	-1,202	-1,324

SOURCES: Joint Committee on Taxation and CBO.

BASIS OF ESTIMATE

Revenues

With the exception of the provisions relating to IRS user fees, new tobacco assessments, and the suspension of duties on certain imports, JCT provided the revenue estimates for this legislation. CBO and JCT estimate that the provisions of H.R. 4520 will decrease federal revenues by about $4.9 billion in 2005, $10.1 billion over the 2005-2009 period, and about $6.8 billion over the 2005-2014 period (see Table 2).

Title I: Provisions Related to Repeal of Exclusion for Extraterritorial Income. H.R. 4520 repeals the exclusion for a portion of income earned by U.S. exporters beginning in 2005. JCT estimates that the repeal and the transition relief provided in the first two years will increase federal revenues by about $16.4 billion over the 2005-2009 period and $49.2 billion over the 2005-2014 period. The repealed exclusion is replaced by a deduction related to income attributable to U.S. production activities, which JCT estimates will decrease governmental receipts by about $22.5 billion over the 2005-2009 period and $76.5 billion over the 2005-2014 period. On balance, these provisions will decrease revenues by almost $6.1 billion over the 2005-2009 period and by about $27.3 billion over the 2005-2014 period.

TABLE 2. ESTIMATED IMPACT OF H.R. 4520 ON REVENUES

	By Fiscal Year, in Millions of Dollars									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CHANGES IN REVENUES										
Title I: Provisions Related to the Repeal of Exclusion for Extraterritorial Income	-1,700	-1,735	-868	-766	-985	-2,856	-4,466	-4,560	-4,685	-4,689
Title II: Business Tax Incentives	-717	-4,605	-7,480	-1,203	3,171	1,898	1,196	631	79	-309
Title III: Provisions Relating to Tax Relief for Agriculture and Small Manufacturers	-1,350	-180	627	410	313	260	1,189	1,522	1,543	1,563
Title IV: Tax Reform and Simplification for U.S. Businesses	1,332	-3,108	-2,823	-3,415	-4,054	-5,689	-5,862	-6,096	-6,309	-6,612
Title V: Deduction of State and Local General Sales Taxes	-3,080	-1,915	0	0	0	0	0	0	0	0
Title VI: Fair and Equitable Tobacco Reform Provisions	1,098	1,098	964	964	964	964	964	964	964	1,205
Title VII: Miscellaneous Provisions	-372	-459	-553	-596	-652	-573	-433	-360	-288	-381
Title VIII: Other Revenue Provisions	-138	2,629	5,422	6,593	7,075	7,603	8,262	8,725	8,920	9,016
Total Changes in Revenues	-4,927	-8,284	-4,711	1,987	5,832	1,607	850	826	224	-207

SOURCES: Joint Committee on Taxation and CBO.

Title II: Business Tax Incentives. The provisions in title I primarily relate to domestic businesses and include changes to depreciation rules, small business expensing, community revitalization, and the tax treatment of S corporations. Taken together, these provisions will decrease revenues in 2005 by about $700 million, by $10.8 billion over the 2005-2009 period, and by a little more than $7.3 billion over the 2005-2014 period. The decrease in revenues is concentrated in the first several years as the result of extending through 2007 the special rules for expensing of investments by small businesses. JCT estimates those provisions will reduce governmental receipts by nearly $11 billion between 2005 and 2007, and then increase receipts by almost $10 billion from 2008 through 2014.

Title III: Provisions Relating to Tax Relief for Agriculture and Small Manufacturers. The provisions in title II increase incentives for production, supply, and purchase of alternative motor vehicles and fuels and restructure incentives to small manufacturing, agricultural, and other types of businesses. Taken together, these provisions will decrease revenues in 2005 by $1.4 billion and by $185 million over the 2005-2009 period. The provisions will increase revenues by almost $5.9 billion over the 2005-2014 period. Almost all of the reduction in revenues in 2005 (about $1.3 billion) stems from extending placed-in-service dates for certain aircraft. Doing so allows the aircraft to qualify for the additional first-year depreciation allowance that was enacted in 2003 and is scheduled to expire this year. JCT estimates that the provision will reduce revenues by about $1.4 billion between 2005 and 2006, and increase revenues by nearly the same amount between 2007 and 2011, with no effect thereafter.

Much of title III's estimated increase in revenues over the 10-year period will result from replacing the current gasoline tax exemption for alcohol fuels with an excise tax credit worth the same amount. The Balanced Budget and Emergency Deficit Control Act requires CBO to treat excise taxes dedicated to trust funds as permanent, even if they expire during the projection period. CBO's most recent baseline assumptions included permanent extension of the reduced rates of taxation on alcohol fuels beyond their expiration in 2007 because they reduced amounts credited to the Highway Trust Fund (HTF). However, the excise tax credit for alcohol fuels, as provided for in the act, will not reduce amounts credited to the HTF and will expire at the end of 2010. Therefore, CBO and JCT do not assume the credit will be extended and estimate that repealing the existing exemptions from the gasoline tax rate for alcohol fuels will increase governmental receipts by an additional $5.9 billion between 2011 and 2014, after the new tax credit expires.

Other changes in title III include, but are not limited to, altering excise taxes imposed on certain archery and fishing equipment, allowing small refiners to expense costs incurred for complying with the Environmental Protection Agency's sulfur regulations, and doubling the capital expenditure limit for small issue bonds. In total, JCT estimates the remaining provisions in this title will reduce revenues by $85 million in 2005 and by $3 million over the 2005-2014 period.

Title IV: Tax Reform and Simplification for U.S. Businesses. The tax reform provisions primarily make changes to tax law relating to U.S. businesses with foreign operations. Over one-third of the effect on revenues will come from altering interest expense allocation rules beginning in 2009, which JCT estimates will reduce federal revenues by about $14.4 billion over the 2009-2014 period. Other key provisions that will reduce revenues include recharacterizing domestic loss and lengthening the period over which unused foreign tax credits may be carried forward and claimed against current tax liabilities. Another provision temporarily reduces the effective tax rate on certain dividends paid by foreign corporations, increasing receipts in 2005 by about $2.8 billion and reducing receipts thereafter. Taken together, the provisions in title IV will increase revenues by about $1.3 billion in 2005, and reduce revenues by about $12.1 billion over the 2005-2009 period and $42.6 billion over the 2005-2014 period.

Title V: Deduction of State and Local General Sales Taxes. The act allows individuals to take an itemized deduction for state and local sales taxes for 2004 and 2005. Taxpayers who opt to deduct those sales taxes will do so in lieu of deducting their state and local income taxes. JCT estimates that doing so will reduce revenues by about $3.1 billion in 2005 and $1.9 billion in 2006.

Title VI: Fair and Equitable Tobacco Reform Provisions. Title VI establishes a system of assessments on tobacco product manufacturers and importers for deposit into a tobacco trust fund created within the Department of Agriculture's Commodity Credit Corporation (CCC). All assessments will be deposited to the fund, and all costs of the title will be paid from the fund. CBO estimates the new revenues collected over the 2005-2014 period will match the estimated direct spending authorized by the tobacco market provision (although, delays in receipt collections may result in revenues not matching spending for each year). Such tobacco-related expenditures are discussed below under the heading "Direct Spending."

Under the act, the Secretary of Agriculture will annually determine the amount needed to make all payments from the fund, and collect that amount from tobacco product manufacturers and importers. Individual assessments will be prorated based on the value of products marketed. CBO estimates that $10.1 billion will be collected over the 2005-2014 period. That estimate is largely based on the direct payments to tobacco producers and owners of tobacco quotas, as authorized by the legislation (discussed below under "Direct Spending").

Title VII: Miscellaneous Provisions. In total, JCT estimates title VII will decrease revenues by $372 million in 2005, about $2.6 billion between 2005 and 2009, and about $4.7 billion between 2005 and 2014. Roughly half of that loss ($2.3 billion over the 2005-2014 period) results from extending and expanding the tax credit for producing electricity from certain renewable sources.

The provisions also include temporarily suspending the customs duties imposed on imports of certain ceiling fans through December 31, 2006, and the duties imposed on certain steam generators and on certain pressurizers and reactor vessel heads that are used in nuclear facilities through December 31, 2006. Together, CBO estimates those provisions will reduce revenues by $53 million between 2005 and 2009.

Title VIII: Other Revenue Provisions. On net, other tax provisions in the act will decrease federal revenues by $138 million in 2005, but increase receipts by about $21.6 billion over the 2005-2009 period and $64.1 billion over the 2005-2014 period. Together, the following provisions provide over half of such revenue increases:

- Changing the treatment of charitable contributions of transportation vehicles, patents and similar property;

- Reforming the tax treatment for certain leasing transactions with tax-indifferent parties (generally tax-exempt);

- Establishing consistent amortization periods for intangibles; and

- Modifying the tax treatment of inversion transactions, which occur when a multinational firm with a U.S. parent corporation restructures so that a new foreign corporation becomes the parent corporation, with little or no change in operating structure.

The act also allows the IRS to enter into qualified tax collection contracts with private collection agencies (PCAs) to collect delinquent tax liabilities. Such agents may be given specific, limited information regarding a taxpayer's outstanding tax liability. JCT estimates this provision will increase revenues by $621million over the 2005-2009 period and about $1.4 billion over the 2005-2014 period. It also will increase direct spending as described below.

Direct Spending

CBO estimates that H.R. 4520 will increase direct spending by $764 million in 2005, but will decrease direct spending by about $1.4 billion over the 2005-2009 period and $6.8 billion over the 2005-2014 period (see Table 3). The largest direct spending effects come from extending the customs users fees—resulting in almost $19 billion of additional offsetting receipts (a credit against direct spending)—and from providing payments to holders of tobacco production quotas—resulting in about $10 billion of outlays over the 2005-2014 period.

Extension of Customs User Fees. Absent enactment of H.R. 4520, customs user fees would have expired on March 1, 2005. The act extended the authority to collect these fees through September 30, 2014. CBO estimates that this provision will generate offsetting receipts of about $18.6 billion over the 2005-2014 period.

Tobacco Market Transition. Title VII repeals laws implemented by the U.S. Department of Agriculture (USDA) to control the supply and price of tobacco grown in the United States by granting individuals rights (known as quotas) to produce and market specific quantities of tobacco. The act provides for a series of direct federal payments to domestic tobacco

TABLE 3. ESTIMATED IMPACT OF H.R. 4520 ON DIRECT SPENDING

	By Fiscal Year, in Millions of Dollars									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CHANGES IN DIRECT SPENDING										
Extension of Customs User Fees										
Estimated Budget Authority	-784	-1,565	-1,656	-1,751	-1,853	-1,960	-2,074	-2,194	-2,321	-2,456
Estimated Outlays	-784	-1,565	-1,656	-1,751	-1,853	-1,960	-2,074	-2,194	-2,321	-2,456
Tobacco Market Transition										
Estimated Budget Authority	1,464	964	964	964	964	964	964	964	964	964
Estimated Outlays	1,464	964	964	964	964	964	964	964	964	964
Taxation of Hepatitis A and Influenza Vaccines										
Estimated Budget Authority	35	40	41	43	43	44	44	45	46	46
Estimated Outlays	35	40	41	43	43	44	44	45	46	46
Expiration of Special Tax Treatment of Ethanol										
Estimated Budget Authority	0	0	0	0	0	0	19	32	54	66
Estimated Outlays	0	0	0	0	0	0	19	32	54	66
Providing Direct Payments in Lieu of Excise Tax Credits										
Estimated Budget Authority	77	114	116	117	119	121	38	0	0	0
Estimated Outlays	77	114	116	117	119	121	38	0	0	0
Impact of Biodiesel Tax Credits										
Estimated Budget Authority	-30	-32	-2	0	0	0	0	0	0	0
Estimated Outlays	-30	-32	-2	0	0	0	0	0	0	0
Health Care Services for Treatment of Sickle Cell Disease										
Estimated Budget Authority	2	6	8	10	11	14	16	18	20	21
Estimated Outlays	2	6	8	10	11	14	16	18	20	21
IRS Contracting for Debt Collection										
Estimated Budget Authority	0	19	50	45	40	37	37	37	37	37
Estimated Outlays	0	19	50	45	40	37	37	37	37	37
Modify Taxation of Imported Archery and Fishing Products										
Estimated Budget Authority	0	-2	-2	-2	-2	-2	-2	-2	-2	-3
Estimated Outlays	0	-2	-2	-2	-2	-2	-2	-2	-2	-3
Total Changes										
Estimated Budget Authority	764	-456	-481	-575	-678	-782	-958	-1,101	-1,202	-1,324
Estimated Outlays	764	-456	-481	-575	-678	-782	-958	-1,101	-1,202	-1,324

growers and owners of tobacco quotas. (Because those holding tobacco quotas to produce and market tobacco can lease that right to others, the quota owners and growers may be different individuals.)

The legislation ends supply controls for the 2005 tobacco crop and for future crops, and will provide quota holders and growers annual payments over the 2005-2014 period. CBO estimates that the tobacco market transition provisions of H.R. 4520 will cost $10.1 billion over the 2005-2014 period.

The act provides a direct payment to individuals of $0.70 per pound of tobacco quota owned and $0.30 per pound of tobacco quota grown for each year over the 2005-2014 period. Based on information from USDA on the volume of tobacco quotas and the use of those quotas, CBO estimates this provision will cost $964 million a year, or a total of $9.6 billion over the 2005-2014 period.

In addition to the direct federal payments authorized by this title, CBO estimates that tobacco growers and buyers will be relieved of paying a federal assessment of about $500 million in 2005 because of the termination of USDA's No-Net-Cost Tobacco program. That program provided a support price (also known as a loan rate) to growers of the many varieties of domestic tobacco. It has been administered through the Commodity Credit Corporation and is separate from the tobacco quota system discussed above.

Support prices for the various tobacco varieties are set by a formula specified in law, and USDA was charged with attempting to control the supply of tobacco through quotas so that the actual market price of tobacco was at or above the support price. In the event that USDA could not manage supply to achieve the support price in the market, growers are guaranteed the support price by USDA. Any net cost incurred by USDA to maintain the support price, however, was offset by an assessment imposed on all tobacco growers and buyers. Thus, under prior law, the price support program operated at no net cost to the federal government.

CBO expects that with enactment of H.R. 4520 the market price for domestic tobacco will drop precipitously because USDA's quota and acreage allotment systems will no longer restrict the supply of tobacco. We estimate the price support program will cost the CCC about $500 million in 2005 as more growers accept the support price for tobacco and forfeit crops from 2004 and previous years to the government. Although the legislation terminates the No-Net-Cost Tobacco program for future years' crops, it also requires assessments on the tobacco product manufacturers to cover final costs of the price-support program through the newly created tobacco trust fund, and any net costs to the CCC will be covered by the new assessments. (Those assessments, also totaling $10.1 billion over the 2005-2014 period, are included above in the "Revenues" section.)

Taxation of Hepatitis A and Influenza Vaccines. Sections 889 and 890 require buyers of hepatitis A and influenza vaccines to pay an excise tax on each dose purchased. Medicaid is a major purchaser of vaccines through the Vaccines for Children program, administered through the Centers for Disease Control and Prevention (CDC). Medicare is a major purchaser of the vaccines for the elderly. CBO estimates that Medicaid and Medicare pay for approximately half of the hepatitis A and influenza vaccines sold annually. Based on estimates provided by JCT, CBO expects that these sections will cost the Medicaid and Medicare programs about $31 million in 2005 and $384 million over the 2005-2014 period. (Those amounts are also reflected above in the estimates of the revenues resulting from the act.)

Receipts from the tax will go to the Vaccine Injury Compensation Fund (VICF), which is administered by the Health Resources and Services Administration (HRSA). The fund uses tax revenues to pay compensation to claimants injured by vaccines. Once a vaccine becomes taxable, injuries attributed to its use become compensable through this fund. Based on information provided by HRSA and CDC, we assume there will be few compensable claims related to the hepatitis A and influenza vaccines. CBO estimates the provisions of H.R. 4520 will increase outlays from the VICF by $43 million over the 2005-2014 period. Thus, outlays resulting from the vaccine provisions will total an estimated $35 million in 2005 and $427 million over the 2005-2014 period.

Expiration of Special Tax Treatment for Ethanol. Replacing the gasoline tax exemption for alcohol fuels with an excise tax credit will increase estimated spending for farm price and income support payments after 2010. CBO's most recent baseline projections assumed that the exemption would continue permanently after 2007; however, for this estimate and for future baseline purposes, we assume that the credit will expire in 2010, as scheduled in the act (see "Revenues" section). Because the alcohol in such fuels is primarily derived from corn, demand for corn rises and falls with the demand for ethanol. The higher after-tax cost of alcohol fuels resulting from expiration of the tax credit in 2010 will slightly reduce demand for ethanol and corn prices relative to those CBO projected in its most recent baseline. As a result, CBO estimates that federal spending for farm price and income support payments will increase by $171 million over the 2011-2014 period.

Providing Direct Payments in Lieu of Excise Credits for Alcohol Fuels. The act provides for payments of the new excise tax credits to recipients who have insufficient tax liability to use them otherwise. CBO estimates that outlays will increase by $543 million over the 2005-2009 period and $702 million over the 2005-2011 period. Because the new payments will replace the reduced tax rate on alcohol fuels, those amounts exactly equal the increase in revenues estimated for this provision.

Impact of Biodiesel Tax Credits. Because of the act's incentives to sell and use biodiesel fuels, JCT and CBO have estimated that use of those fuel mixtures will increase until the incentives expire on December 31, 2006. Because the vegetable oil in the mixtures is expected to be primarily derived from soybeans and a few other oilseeds, the price of those oilseeds will increase. (Qualifying vegetable oils may be derived from corn, soybeans, and a list of other oil seeds.) Higher commodity prices will result in lower costs of farm price-support and income-support programs administered by USDA. CBO estimates those changes in the demand for soybeans and other sources of vegetable oils will reduce federal spending by $64 million from 2005 through 2007.

Health Care Services for Individuals with Sickle Cell Disease. Section 712 of the act permits states to make services for the treatment of sickle cell disease (SCD) a separate benefit in their Medicaid programs and allows states to receive Medicaid matching funds for education and outreach efforts related to SCD. CBO estimates that these provisions will increase federal Medicaid spending by $126 million over the 2005-2014 period.

IRS Contracting for Debt Collection. As discussed above (under "Revenues"), section 881 allows the IRS to contract with private collection agencies to collect payments of tax liabilities. JCT estimates that this provision will increase revenues by about $1.4 billion over the 2005-2014 period. The IRS can retain and spend up to 25 percent of the amounts collected by the PCAs to pay for the services they provide. Based on JCT's estimates of new revenue collections, CBO estimates that allowing the IRS to retain and spend 25 percent of the amounts collected will increase direct spending by $339 million over the 2005-2014 period.

Modify Taxation of Imported Archery Products. Sections 332, 333, and 334 eliminate, reduce, or simplify excise taxes on certain fishing and hunting products, including archery equipment, which are deposited into either the Aquatic Resources Trust Fund or the Federal Aid-Wildlife Fund. Amounts in the two funds are used primarily for grants to states for the conservation of wildlife, sportfish, and coastal wetlands. CBO estimates that these provisions will reduce direct spending by about $20 million over the 2005-2014 period.

Installment Agreements for Tax Payments. Under prior law, taxpayers can elect to pay their full tax liability though installments. Section 843 of the act allows the IRS to enter into agreements for the partial payment of tax liabilities. That change will result in more installment agreements and additional revenue collections. The IRS charges a fee of $43 for each installment agreement, which it can spend without further appropriation. CBO estimates that allowing installment agreements providing for the partial payment of tax liabilities will increase IRS collections of installment fees by about $1 million over the 2005-2006 period. Because the IRS has the authority to retain and spend such collections without further appropriation, the change will have no significant net budgetary impact.

PREVIOUS CBO ESTIMATES

On June 16, 2004, CBO transmitted a cost estimate for H.R. 4520, the American Jobs Creation Act of 2004, as ordered reported by the House Committee on Ways and Means on June 14, 2004. That version has many similarities to the version cleared by the Congress. The estimates of the two pieces of legislation reflect differences in the provisions and different assumed enactment dates.

On August 2, 2004, CBO transmitted a cost estimate for H.R. 4520, the Jumpstart Our Business Strength (JOBS) Act, as passed by the Senate on July 15, 2004. That version incorporated S. 1637, as passed by the Senate on May 11, 2004, with an additional amendment related to tobacco. That act also has many similarities with the cleared legislation. They both repeal the exclusion for extraterritorial income, with transition relief, and institute a deduction related to income attributed to production in the United States. Numerous other provisions were included in the enacted version; however, the earlier Senate-passed version included federal regulation of tobacco products, which was not included in the enacted version. The Senate-passed version also would have extended certain expiring tax provisions. Those extensions were included in H.R. 1308, the Working Families Tax Relief Act, which was enacted as Public Law 108-311earlier this month.

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