CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 8, 2003

H.R. 1528

Taxpayer Protection and IRS Accountability Act of 2003

As ordered reported by the House Committee on Ways and Means on April 3, 2003

SUMMARY

H.R. 1528 would amend existing tax law and establish new laws relating to taxpayer protection and Internal Revenue Service (IRS) accountability. The bill also would alter the tax penalty and interest sections of the Internal Revenue Code. In addition, the bill would institute new safeguards against unfair IRS collections procedures.

The Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) estimate that H.R. 1528 would increase governmental receipts by $21 million in 2003, and by $651 million over the 2003-2008 period, and would decrease governmental receipts by $308 million over the 2003-2013 period. CBO estimates that the bill would increase direct spending by $171 million over the 2004-2013 period.

CBO and JCT have determined that H.R. 1528 contains no private-sector or intergovernmental mandates as defined by the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The following table summarizes the estimated budgetary impact of H.R. 1528.

	By Fiscal Year, in Millions of Dollars					
	2003	2004	2005	2006	2007	2008
CHANGES IN REVENUES						
Adjustment to estimated tax penalties	0	0	-64	-66	-68	-70
Exclusion from gross income for interest on overpayments of income tax	0	0	1,034	-103	-106	-109
Other penalty and interest reform provisions	14	130	-25	-26	-28	-29
Collection procedure reform provisions	8	39	12	2	-3	-3
Alteration of refundable credit for health insurance costs of TAA and PBGC	-1	-27	-23	-5	0	0
Extension of IRS user fees	0	33	34	35	36	38
Total Changes in Revenues	21	175	968	-163	-169	-173
CHANGES IN DIRECT SPENDING (OUTLAYS)						
Alteration of fees for Financial Management Service	0	8	8	8	9	9
Extension of IRS user fees	0	3	3	4	4	4
Alteration of refundable credit for health insurance costs of TAA and PBGC	3	13	22	6	0	0
Total Changes in Outlays	3	24	33	18	13	13

SOURCES: CBO and the Joint Committee on Taxation.

NOTES: Details do not add to totals because of rounding.
TAA = Trade Adjustment Assistance
PBGC = Pension Benefit Guarantee Corporation

BASIS OF ESTIMATE

Revenues

All revenue estimates, with the exception of that for the provision extending IRS user fees, were provided by JCT.

H.R. 1528 would alter existing tax laws relating to penalties and interest, collection procedures, tax administration, and confidentiality and disclosure. In addition, the bill would extend IRS user fees, increase the authorization for matching grants to certain low-income taxpayer clinics, and make a technical alteration to the Federal-State Extended Benefits Program for unemployed workers. JCT and CBO estimate that, together, the provisions contained in H.R. 1528 would increase federal revenues by $21 million in 2003, increase them by $651 million over the 2003-2008 period, and decrease them by $308 million over the 2003-2013 period.

The most significant effect on federal revenues would result from the provision that converts the penalty for failure to pay estimated tax into an interest provision for individuals, estates, and trusts. The provision also increases the safe harbor for such penalties to $1,600. JCT estimates enacting this provision would decrease federal revenues by $268 million over the 2005-2008 period and by $651 million over the 2005-2013 period. The bill also would allow individuals to exclude from gross income interest on overpayments of income tax, unless it were determined that the taxpayer intentionally took advantage of the exclusion. JCT estimates this provision would increase governmental receipts by about $1 billion in 2005, and decrease receipts in each year thereafter, for a total increase of $115 million over the 2005-2013 period. JCT estimates that the additional provisions contained in H.R. 1528 that would alter penalty and interest tax laws would increase federal revenues by $14 million in 2003 and by $36 million over the 2003-2008 period, and decrease them by $135 million over the 2003-2013 period.

H.R. 1528 also would change existing collection procedures. JCT estimates that those changes would increase federal revenues by $8 million in 2003, by $49 million over the 2003-2008 period, and by $32 million over the 2003-2013 period. H.R. 1528 also would allow certain state-based coverage to meet the definition of qualified health insurance eligible for the refundable health insurance tax credit. JCT estimates that this provision would decrease federal revenues by $1 million in 2003 and by $56 million over the 2003-2006 period. It would have no effect on revenues thereafter.

Lastly, H.R. 1528 would extend the period during which IRS may charge fees on businesses for providing ruling, opinion, and determination letters. Under current law, IRS's authority to charge such fees will expire at the end of fiscal year 2003. The bill would extend the authority to charge such fees until September 30, 2013. Based on the amount of fees collected in recent years and on information from IRS, CBO estimates that extending the fees would increase governmental receipts by $176 million over the 2004-2008 period and $386 million over the 2004-2013 period.

Direct Spending

Financial Management Service Fees. Section 510 of H.R. 1528 would allow the Financial Management Service (FMS) to retain a portion of the amounts levied under the Federal

Payment Levy Program that FMS administers for the Internal Revenue Service (IRS). The levy program allows the IRS to collect a portion of certain payments disbursed by FMS to delinquent taxpayers. Under current law, IRS pays FMS' administrative costs for this program from its annual appropriation. H.R. 1528 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 by $42 million over the 2004-2008 period and by $88 million over the 2004-2013 period.

IRS User Fees. As noted above, H.R. 1528 would adjust and extend the authority of the IRS to charge taxpayers fees for certain rulings, opinion letters, and determinations through September 30, 2013. The IRS has the authority to retain and spend a small portion of these fees without further appropriation. CBO estimates that continuing the fees would increase direct spending by a total of $18 million over the 2004-2008 period and by $39 million over the 2004-2013 period.

Refundable Credit for Health Insurance Costs. As noted above, H.R. 1528 would allow certain state-based health insurance coverage to qualify for the refundable health insurance credit. JCT estimates that the provision would increase outlays, from the refundability of the credit, by $3 million in 2003, and by a total of $44 million over the 2003-2006 period. It would have no effect on outlays thereafter.

SUMMARY OF THE EFFECT ON REVENUES AND DIRECT SPENDING

The overall effect of H.R. 1528 on revenues and direct spending is shown in the following table.

	By Fiscal Year, in Millions of Dollars										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Changes in receipts	21	175	968	-163	-169	-173	-178	-187	-194	-199	-206
Changes in outlays	3	24	33	18	13	13	13	13	13	13	15

SOURCES: CBO and the Joint Committee on Taxation.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

CBO and JCT have determined that H.R. 1528 contains no private-sector or intergovernmental mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

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