CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

November 6, 2003

S. 1637
Jumpstart Our Business Strength (JOBS) Act

As ordered reported by the Senate Committee on Finance on October 2, 2003

SUMMARY

S. 1637 would repeal the exclusion for extraterritorial income, allow a deduction for income attributable to U.S. production activities, and make numerous other changes to existing tax law for corporations. In addition, the bill would extend IRS and customs user fees. The tax provisions of the bill would generally take effect upon enactment of the legislation.

The Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) estimate the provisions of the bill would decrease federal revenues by about $5.6 billion in 2004. Enacting the bill would increase revenues by about $2.3 billion over the 2004-2008 period, but would decrease revenues by about $16.4 billion over the 2004-2013 period. CBO estimates that the bill would reduce direct spending by $614 million in 2004, about $6.8 billion over the 2004-2008 period, and about $16.7 billion over the 2004-2013 period.

JCT has determined that several tax provisions of S. 1637 contain private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). CBO has reviewed the non-tax provisions and determined that the extension of the customs user fees is a private-sector mandate as defined in UMRA. In aggregate, the costs of those mandates would greatly exceed the annual threshold established by UMRA for private-sector mandates ($120 million in 2004, adjusted annually for inflation) in each of the first five years the mandates are in effect. JCT and CBO have determined that S. 1637 contains no intergovernmental mandates as defined in UMRA, and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1637 is shown in the following table. The costs of the legislation fall within budget functions 550 (health), 750 (administration of justice), and 800 (general government).

	By Fiscal Year, in Millions of Dollars									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CHANGES IN REVENUES										
Repeal Exclusion for Extraterritorial Income and Provide Transition Relief	605	1,546	2,411	4,547	5,508	5,727	5,993	6,258	6,518	6,789
IRS Contracting for Tax Collections	0	92	172	174	154	140	140	140	140	140
Extend IRS User Fees	0	25	35	36	38	39	41	42	44	45
Other Provisions Increasing Revenues	2,401	3,228	3,578	3,570	3,648	3,751	4,274	5,003	5,434	5,859
Modify Carryback Rules for Losses	-9,438	1,956	1,599	1,210	749	538	380	274	179	115
Reduce Tax Rate on Dividends from Controlled Foreign Corporations	2,713	146	-2,511	-1,376	-903	-599	-413	-327	-288	-211
Allow a Deduction for Income Attributable to U.S. Production Activities	-378	-1,006	-2,022	-4,328	-5,431	-6,311	-8,241	-9,517	-10,762	-12,171
Other Provisions Reducing Revenues	-1,455	-1,650	-2,276	-2,150	-2,919	-3,782	-5,383	-5,674	-6,171	-6,817
Estimated Revenues	-5,552	4,337	986	1,683	844	-497	-3,209	-3,801	-4,906	-6,251
CHANGES IN DIRECT SPENDING										
Installment Agreements for Tax Payments										
Estimated Budget Authority	1	*	*	0	0	0	0	0	0	0
Estimated Outlays	1	*	*	0	0	0	0	0	0	0
IRS Contracting for Tax Collections										
Estimated Budget Authority	0	23	43	43	39	35	35	35	35	35
Estimated Outlays	0	23	43	43	39	35	35	35	35	35
Extension of Customs User Fees										
Estimated Budget Authority	-619	-1,464	-1,546	-1,632	-1,722	-1,818	-1,919	-2,025	-2,138	-2,257
Estimated Outlays	-619	-1,464	-1,546	-1,632	-1,722	-1,818	-1,919	-2,025	-2,138	-2,257
Taxing Hepatitis A Vaccine										
Estimated Budget Authority	5	7	7	7	7	7	7	7	7	7
Estimated Outlays	5	7	7	7	7	7	7	7	7	7
Total Changes										
Estimated Budget Authority	-614	-1,434	-1,496	-1,582	-1,676	-1,776	-1,877	-1,983	-2,096	-2,215
Estimated Outlays	-614	-1,434	-1,496	-1,582	-1,676	-1,776	-1,877	-1,983	-2,096	-2,215

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	By Fiscal Year, in Millions of Dollars									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CHANGES IN SPENDING SUBJECT TO APPROPRIATION										
Tax Law Enforcement										
Authorization Level	300	300	300	300	300	300	300	300	300	300
Estimated Outlays	278	297	299	299	299	299	299	299	299	299
Extension of IRS User Fees										
Estimated Authorization Level	0	3	4	4	4	4	4	4	4	5
Estimated Outlays	0	3	4	4	4	4	4	4	4	5
Total Changes										
Estimated Authorization Level	300	303	304	304	304	304	304	304	304	305
Estimated Outlays	278	300	303	303	303	303	303	303	303	304

SOURCES: CBO and the Joint Committee on Taxation.

NOTES: Positive (negative) changes in revenues correspond to decreases (increases) in budget deficits. Positive (negative) changes in direct spending correspond to increases (decreases) in budget deficits.

* = Increase of less than $500,000.

BASIS OF ESTIMATE

Revenues

JCT provided all the revenue estimates, with the exception of the extension of IRS user fees. A little more than half of the provisions contained in S. 1637 that would affect federal revenues would increase receipts over the 2004-2013 period. The remaining provisions would reduce governmental receipts. On net, CBO and JCT estimate the provisions of the bill would decrease federal revenues by about $5.6 billion in 2004. Enacting the bill would increase revenues by about $2.3 billion over the 2004-2008 period and decrease revenues by about $16.4 billion over the 2004-2013 period.

The largest increase in revenues would come from repealing the exclusion for extraterritorial income (ETI). In conjunction with the repeal, the bill also would provide transition relief for certain corporations through January 1, 2007. JCT estimates enacting these provisions would increase federal revenues by $605 million in 2004, about $14.6 billion over the 2004-2008 period, and about $45.9 billion over the 2004-2013 period.

The bill also would allow the IRS to enter into qualified tax collection contracts with private collection agencies (PCAs) to collect delinquent tax liabilities. Such agents would be given specific, limited information regarding a taxpayer's outstanding tax liability. JCT estimates this provision would result in an increase in revenues of $592 million over the 2005-2008 period and about $1.3 billion over the 2005-2013 period.

In addition, S. 1637 would make many other changes to tax law that would raise revenues over the 2004-2013 period. Some of these changes include:

- Clarifying the economic substance doctrine and other related penalty provisions;
- Altering the tax treatment of tax shelters;
- Providing consistent amortization periods for intangibles;
- Repealing the 10 percent rehabilitation credit for non-historic buildings;
- Modifying rules relating to deductions for charitable contributions of patents and other similar property;
- Adding Hepatitis A to the list of taxable vaccines; and
- Allowing the IRS to enter into installment agreements for certain tax payments.

All together, JCT estimates that the additional revenue-raising provisions would increase governmental receipts by about $2.4 billion in 2004, $16.4 billion over the 2004-2008 period, and $40.7 billion over the 2004-2013 period. This total does not include extending IRS user fees, which currently are set to expire on December 31, 2004. The bill would extend the fees through September 30, 2013. CBO estimates this would increase revenues by $135 million over the 2005-2008 period and $345 million over the 2005-2013 period. In addition, the provisions adding Hepatitis A to the list of taxable vaccines, allowing the IRS to contract with private debt collectors, and authorizing the IRS to enter into installment agreements all would affect direct spending (see "Direct Spending" section).

Two provisions would increase receipts in some years but decrease receipts over the 2004-2013 period. JCT estimates that changing tax law relating to the carryback of net operating losses would reduce revenues by about $9.4 billion in 2004, and then increase revenues by about $7 billion over the 2005-2013 period. JCT estimates that temporarily reducing the tax rate for certain dividends from controlled foreign corporations would increase receipts by about $2.9 billion over the 2004-2005 period, and then decrease receipts by about $6.6 billion over the 2006-2013 period.

The largest reduction in revenues would come from allowing firms to deduct a portion of income attributable to certain production activities within the United States. The deduction would be phased in over five years. JCT estimates that this provision would reduce governmental receipts by $378 million in 2004, about $13.2 billion over the 2004-2008 period, and about $60.2 billion over the 2004-2013 period.

JCT estimates that, together, the remaining revenue-reducing provisions contained in S. 1637 would decrease governmental receipts by about $1.5 billion in 2004, $10.4 billion over the 2004-2008 period, and $38.3 billion over the 2004-2013 period. These other provisions include modifying interest expense allocation rules used in computing the foreign tax credit limitation and altering the existing manufacturing deduction to include softwood timber, oil refining, partnerships and sole proprietors, and possessions.

Direct Spending

In total, CBO estimates that the bill would decrease direct spending by $614 million in 2004, about $6.8 billion over the 2004-2008 period, and about $16.7 billion over the 2004-2013 period.

Installment Agreements for Tax Payments. Section 484 would allow the IRS to enter into agreements for the partial payment of tax liabilities. Under current law, taxpayers can elect to pay their full tax liability through installments. The IRS charges a fee of $43 for each installment agreement, which it can retain and spend without further appropriation action. CBO estimates that allowing for the partial payment of tax liabilities would increase direct spending by about $1 million over the 2004-2013 period.

IRS Contracting for Tax Collections. As discussed in the Revenues section, section 487 would allow the IRS to contract with PCAs for the partial payment of tax liabilities. The IRS would be allowed to retain and spend up to 25 percent of the amount collected by the PCAs for the cost of services provided under the contracts. CBO estimates that allowing the IRS to retain and spend 25 percent of the amounts collected would increase direct spending by about $323 million over the 2004-2013 period.

Extension of Customs User Fees. Under current law, customs user fees expire on March 31, 2004. Section 485 of S. 1637 would extend these fees through September 30, 2013. CBO estimates that this would increase offsetting receipts by about $17 billion over the 2004-2013 period.

Taxation of Hepatitis A Vaccine. The Hepatitis A vaccine tax provision (section 491) would require vaccine buyers 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). CBO assumes that Medicaid purchases approximately half of the Hepatitis A vaccines sold annually. Based on estimates provided by JCT, CBO expects that implementing section 491would cost the Medicaid program about $47 million over the 2004-2013 period.

Receipts from the tax would 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 vaccine. CBO estimates the provision would increase outlays from the VICF by $21 million over the 2004-2013 period.

Spending Subject to Appropriation

CBO estimates that implementing H.R. 2896 would cost about $1.5 billion over the 2004-2008 period and $3 billion over the 2004-2013 period, subject to the appropriation of the estimated amounts.

Tax Law Enforcement. Section 418 would authorize the appropriation of $300 million annually for tax law enforcement activities to combat tax avoidance transactions, including tax shelters and offshore accounts. Assuming the appropriation of the specified amounts, CBO estimates that implementing this provision would cost $278 million in 2004 and about $3 billion over the 2004-2013 period.

Extension of IRS User Fees. Section 482 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 $15 million over the 2005-2008 period and $36 million over the 2005-2013 period, subject to the appropriation of the necessary amounts.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

JCT and CBO have reviewed the provisions of S. 1637 and have determined that the bill contains 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 several tax provisions of S. 1637contain private-sector mandates as defined in UMRA. Those are the provisions which:

1. Repeal the exclusion for extraterritorial income,
2. Alter tax law relating to tax shelters,
3. Alter the limitation on transfer or importation of built-in losses,
4. Modify the tax treatment of inversion transactions,
5. Expand the lease term to include certain service contracts,
6. Provide special rules for certain film and television productions,
7. Modify the qualification rules for tax-exempt property and casualty insurance companies,
8. Alter the tax treatment of charitable contributions of patents or similar property,
9. Establish specific class lives for utility grading costs,
10. Repeal the rehabilitation credit in the case of non-historic buildings,
11. Increase the age limit regarding the taxation of certain minors, and
12. Provide consistent amortization periods for intangibles.

In aggregate, the costs of those mandates would greatly exceed the annual threshold established by UMRA for private-sector mandates ($120 million in 2004, adjusted annually for inflation) in each of the first five years the mandates are in effect.

CBO has reviewed the non-tax provisions of S. 1637 and determined that the extension of the customs user fees is a private-sector mandate as defined in UMRA. S. 1637 would extend through 2013 customs user fees that are scheduled to expire at the end of March 2004 under current law. CBO cannot determine the direct cost of this provision, however, because UMRA does not clearly specify how to calculate the cost associated with extending an existing mandate that has not yet expired. Under one interpretation, UMRA requires the direct cost to be measured relative to a case that assumes that the current mandate will not exist beyond its current expiration date. Under that interpretation, CBO estimates that the direct cost of the mandate would be more than $600 million in 2004 and larger in later years. Under the other interpretation, UMRA requires the direct cost to be measured relative to the mandate currently in effect. Under that interpretation, the direct cost of this provision would be zero.

PREVIOUS CBO ESTIMATE

On November 5, 2003, CBO transmitted a cost estimate for H.R. 2896, the American Jobs Creation Act of 2003, as ordered reported by the House Committee on Ways and Means on October 28, 2003. CBO estimated that enacting H.R. 2896 would decrease federal revenues by about $76.6 billion and direct spending by about $17.1 billion over the 2004-2013 period. By comparison, CBO estimates that enacting S. 1637 would decrease revenues by about $16.4 billion and direct spending by about $16.7 billion over the same period. Both bills would repeal the exclusion for extraterritorial income and provide some transition relief to corporations; however, H.R. 2896 would reduce the tax rate on certain corporate income, while S. 1637 would provide corporations with a deduction for certain U.S. production activity. Many of the other provisions of the bills also differ, and our cost estimates reflect those differences.

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