CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 12, 2005

H.R. 1765
Generating Opportunity by Forgiving Educational Debt for Service Act of 2005

As ordered reported by the House Committee on Government Reform on June 16, 2005

SUMMARY

H.R. 1765 would allow federal employees to receive federal student loan repayment benefits tax-free. It would exclude from their gross income for income tax purposes any payment that the federal government makes toward their student loans, and it also would exclude such payments from wages for payroll employment tax purposes. These provisions would apply to payments made in taxable years beginning after December 31, 2004.

The Joint Committee on Taxation (JCT) estimates that enacting H.R. 1765 would reduce federal revenues by $9 million in 2006, by $37 million over the 2006-2010 period, and by $78 million over the 2006-2015 period. These estimates include reductions in off-budget receipts from Social Security payroll taxes of $1 million in 2006, $7 million over the 2006-2010 period, and $15 million over the 2006-2015 period. The Congressional Budget Office (CBO) estimates that enacting H.R. 1765 would not affect direct spending. CBO estimates that implementing the bill would lower discretionary spending by $10 million over the 2006-2010 period and $20 million over the 2006-2015 period, assuming that appropriations are reduced accordingly. Such appropriations action would yield an identical reduction in offsetting receipts from federal agency payments to Social Security and Medicare.

CBO has determined that subsection 2(b)(2) amends title II of the Social Security Act and is therefore excluded from the provisions of the Unfunded Mandates Reform Act (UMRA). Section 4 of UMRA excludes from the application of that act any legislative provisions that relate to the Old-Age, Survivors, and Disability Insurance program under title II of the Social Security Act. CBO has also reviewed section 3 and determined that it contains no new intergovernmental or private-sector mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1765 is shown in the following table.

	By Fiscal Year, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
CHANGES IN REVENUES										
Estimated Revenues	-9	-6	-7	-7	-8	-8	-8	-8	-8	-9
On-Budget	-8	-5	-6	-6	-6	-6	-6	-7	-7	-7
Off-Budget	-1	-1	-1	-1	-1	-2	-2	-2	-2	-2
CHANGES IN SPENDING SUBJECT TO APPROPRIATION										
Changes in Retirement Contributions										
Estimated Authorization Level	-3	-2	-2	-2	-2	-2	-2	-2	-2	-2
Estimated Outlays	-3	-2	-2	-2	-2	-2	-2	-2	-2	-2
Memorandum:										
Changes in Offsetting Receipts Contingent Upon Appropriation Action										
Estimated Budget Authority	3	2	2	2	2	2	2	2	2	2
Estimated Outlays	3	2	2	2	2	2	2	2	2	2

Note: Revenue components may not sum to totals because of rounding.

SOURCE: CBO and the Joint Committee on Taxation.

BASIS OF ESTIMATE

Revenues

H.R. 1765 would allow federal employees to receive federal student loan repayment benefits tax-free. It would exclude from their gross income any payment that the federal government makes toward their student loans, and it also would exclude such payments from wages. The exclusion from gross income would reduce individual income tax receipts, and the exclusion from wages would reduce payroll tax receipts, including off-budget receipts from Social Security taxes.

JCT has provided an estimate of the revenue effects of H.R. 1765. JCT estimates that enacting the bill would reduce governmental receipts by $9 million in 2006, by $37 million over the 2006-2010 period, and by $78 million over the 2006-2015 period. These estimates include reductions in off-budget receipts from the employee share of Social Security payroll taxes of $1 million in 2006, $7 million over the 2006-2010 period, and $15 million over the 2006-2015 period.

Spending Subject to Appropriation

By excluding student loan repayments from wages, the bill would reduce contributions federal agencies make toward the Social Security and Medicare benefits of their workers. These contributions are made as a percentage of employee wages, so reducing wages by the amount of student loan repayments would also reduce these contributions. CBO estimates H.R. 1765 would reduce agency outlays, subject to appropriation action, by $3 million in 2006, $10 million over the 2006-2010 period and $20 million over the 2006-2015 period.

Enacting H.R. 1765 by itself would not affect offsetting receipts (which are recorded as a credit against direct spending) because such changes require appropriations in the future for federal agency administrative expenses. When appropriations are enacted, the change in agency spending would exactly match the reductions in offsetting receipts, leaving no net effect on total federal spending.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

CBO has determined that subsection 2(b)(2) amends title II of the Social Security Act and is therefore excluded from the provisions of UMRA. Section 4 of UMRA excludes from the application of that act any legislative provisions that relate to the Old-Age, Survivors, and Disability Insurance program under title II of the Social Security Act. CBO has also reviewed section 3 and determined that it contains no new intergovernmental or private-sector mandates as defined in UMRA.

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