CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 29, 1999

S. 1792
Tax Relief Extension Act of 1999

As reported by the Senate Committee on Finance on October 26, 1999

SUMMARY

S. 1792 would amend existing tax laws and extend numerous tax provisions that have expired recently or are about to expire. The Joint Committee on Taxation (JCT) estimates that enacting S. 1792 would decrease on-budget governmental receipts by $320 million over the 2000-2004 period, but would increase such receipts by $461 million over the 2000-2009 period. By extending through calendar year 2000 the exclusion of employer-provided educational assistance, JCT estimates that the bill also would decrease off-budget revenues by a total of $118 million in fiscal years 2000 and 2001. In addition, CBO estimates that the bill would increase direct spending by $124 million over the 2000-2004 period and by $159 million over the 2000-2009 period. Although the bill would affect both governmental receipts and direct spending, section 301 of the bill specifies that any change in the surplus or deficit resulting from enactment shall not be counted for purposes of enforcing the pay-as-you-go procedures established by the Balanced Budget and Emergency Deficit Control Act.

JCT estimates that S. 1792 contains one new intergovernmental mandate, the cost of which would not exceed the threshold for intergovernmental mandates ($50 million in 1996, adjusted annually for inflation) established in the Unfunded Mandates Reform Act (UMRA). JCT estimates that S. 1792 contains 16 new private-sector mandates, and that the costs of those mandates would exceed the threshold established in UMRA ($100 million in 1996, adjusted annually for inflation) in each of fiscal years 2000 through 2004.

DESCRIPTION OF MAJOR PROVISIONS

S. 1792 would amend the Internal Revenue Code to:

- Extend to tax years 1999 and 2000 a provision to allow individuals to use nonrefundable personal tax credits to offset their regular tax liability in full (as opposed to limiting such credits to the difference between their regular tax liability and their alternative minimum tax liability);

- Extend the research and experimentation tax credit through December 31, 2000;

- Extend the exemption from Subpart F for active financing income through tax year 2000;

- Extend to tax year 2000 the suspension of income limitation on percentage depletion from marginal oil and gas wells;

- Extend the work opportunity and welfare-to-work tax credits through December 31, 2000;

- Temporarily increase the amount of the excise tax on rum paid to Puerto Rico and the U.S. Virgin Islands from $10.50 per proof gallon to $13.50 per proof gallon;

- Add the streptococcus pneumoniae vaccine to the list of taxable vaccines;

- Increase the amount of the estimated tax that individuals must pay based on the amount of their prior year's tax to 110.5 percent for tax years beginning in 2000 and to 112 percent for tax years beginning in 2004;

- Modify the rules that allow taxpayers to credit the payment of foreign taxes against the payment of U.S. taxes owed on income derived from foreign sources; and

- Prohibit taxpayers who use an accrual method of accounting from also using the installment method of accounting when reporting dispositions of property for income tax purposes.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1792 is shown in the following table. Estimated spending would fall within budget functions 800 (general government) and 550 (health).

	By Fiscal Year, in Millions of Dollars				
	2000	2001	2002	2003	2004
CHANGES IN REVENUES					
Estimated On-Budget Revenues	200	-3,738	730	686	1,802
Estimated Off-Budget Revenues [a]	-77	-41	0	0	0
Total Changes in Revenues	123	-3,779	730	686	1,802
CHANGES IN DIRECT SPENDING[b]					
Estimated Budget Authority	85	20	6	6	7
Estimated Outlays	85	20	6	6	7

a. Represents a loss of taxes to the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds from extending through calendar year 2000 the exclusion of employer-provided educational assistance.

b. Implementing the bill would also increase spending subject to appropriation, but CBO estimates that such costs would not be significant.

Sources: Congressional Budget Office and Joint Committee on Taxation.

BASIS OF ESTIMATE

Revenues

All revenue estimates were provided to CBO by JCT.

Direct Spending

Payment to Territories of Rum Excise Tax. Under current law, a tax of $13.50 per proof gallon is assessed on distilled spirits produced in or brought into the United States. The treasuries of Puerto Rico and the Virgin Islands receive $10.50 of the tax assessed on rum manufactured in either territory. In addition, the territories receive payments, at a similar rate, on all rum imported into the United States from any foreign country. Those payments to Puerto Rico and the Virgin Islands are recorded as outlays in the budget.

Under the bill, the governments of Puerto Rico and the Virgin Islands would receive the full $13.50 per proof gallon for assessments made between July 1, 1999, and December 31, 2000. Based on recent tax and payment data, CBO estimates that increasing the territories' share of the excise tax would increase direct spending by $83 million in fiscal year 2000 (including $18 million in retroactive payments for fiscal year 1999) and $16 million in fiscal year 2001.

Streptococcus Pneumoniae Vaccine. S. 1792 would add conjugate vaccines against streptococcus pneumoniae to the list of taxable vaccines and thus would allow for federal payments to individuals for injuries related to those vaccines from the National Vaccine Injury Compensation Trust Fund. CBO estimates that this provision would increase outlays for compensation to individuals by $4 million over the 2000-2004 period. This provision also would increase federal Medicaid outlays by $21 million over the 2000-2004 period because Medicaid would be required to pay the excise tax on purchases of vaccines against streptococcus pneumoniae. The federal government purchases about one-half of all vaccines through its Vaccines for Children Program.

In addition, this provision would increase the cost of vaccines purchased under section 317 of the Public Health Service Act. Section 317 would authorize grants to states for the purchase of vaccines under federal contracts with vaccine manufacturers. We estimate that any increase in spending under this section would not be significant and would be subject to the availability of appropriated funds.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the budget year and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in receipts	200	-3,738	730	686	1,802	-1,000	468	427	445	441
Changes in outlays	85	20	6	6	7	7	7	7	7	7

Section 301 specifies that any change in the surplus or deficit resulting from enactment of S. 1792 shall not be counted for purposes of enforcing the pay-as-you-go procedures.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

JCT has determined that the provision that would add streptococcus pneumoniae to the list of taxable vaccines is an intergovernmental mandate. JCT estimates that the cost of this mandate would not exceed the threshold specified in UMRA ($50 million in 1996, adjusted annually for inflation).

ESTIMATED IMPACT ON THE PRIVATE SECTOR

JCT has determined that the following provisions of the bill contain private-sector mandates: (1) clarify the tax treatment of income and losses on derivatives, (2) add certain vaccines against streptococcus pneumoniae to the list of taxable vaccines, (3) expand reporting of cancellation of indebtedness income, (4) impose limitation on prefunding of certain employee benefits, (5) limit conversion of character of income from constructive ownership transactions, (6) modify installment method and prohibit its use by accrual method taxpayers, (7) limit use of nonaccrual experience method of accounting, (8) deny charitable contribution deduction for transfers associated with split-dollar insurance arrangements, (9) prevent duplication or acceleration of loss through assumption of certain liabilities, (10) require consistent treatment and provide basis allocation rules for transfers of intangibles in certain nonrecognition transactions, (11) limit distributions by a partnership to a corporate partner of stock in another corporation, (12) prohibit allocations of stock in an S corporation employee stock ownership plan, (13) impose 10 percent vote or value test for real estate investment trusts (REITs), (14) change treatment of income and services provided by taxable REIT subsidiaries, with 20 percent asset limitation, (15) modify treatment of closely held REITs, and (16) modify estimated tax rules for closely held REITs.

JCT estimates that the costs of the private-sector mandates would exceed the threshold established in UMRA ($100 million in 1996, adjusted annually for inflation) in each of fiscal years 2000 through 2004, with the amount of such costs ranging from a low of $383 million in 2004 to a high of $1,042 million in 2001.

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