CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 15, 2002

S. 2498
Tax Shelter Transparency Act

As ordered reported by the Senate Committee on Finance
on June 18, 2002

SUMMARY

S. 2498 would create new penalties and expand existing penalties that may be applied to taxpayers who fail to disclose certain types of information on their tax returns. In particular, the bill would allow the Department of the Treasury to impose penalties on taxpayers who failed to report certain information for reportable transactions, modify the penalties for inaccurate returns if the inaccuracies had a significant tax avoidance purpose, and modify the definition of "substantial understatement" of tax for corporate taxpayers for purposes of imposing a penalty. It also would repeal the current rules regarding registration of tax shelters and instead require persons who assist with transactions in such shelters ("material advisors") to report certain information to the Secretary of the Treasury. The bill would impose a penalty on those material advisors who fail to file the information completely and accurately.

The Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) estimate that enacting the bill would increase governmental receipts by $17 million in 2002, by $601 million over the 2002-2007 period, and by about $1.5 billion over the 2002-2012 period. Since S. 2498 would affect receipts, pay-as-you-go procedures would apply.

JCT has determined that the bill contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments. JCT has determined that the provisions of the bill relating to reportable transactions and tax shelters contain private-sector mandates, and that the cost of complying with these mandates would exceed the threshold established by UMRA ($115 million in 2002, adjusted annually for inflation) in 2005 and 2006.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the bill is shown in the following table.

	By Fiscal Year, in Millions of Dollars					
	2002	2003	2004	2005	2006	2007
CHANGES IN REVENUES						
Estimated Revenues	17	59	102	134	140	147

BASIS OF ESTIMATE

All estimates were provided by JCT. The provisions relating to reportable transactions and tax shelters would compose a significant portion of the effect on revenues if enacted. These provisions would increase revenues by $17 million in 2002, $547 million over the 2002-2007 period, and about $1.3 billion over the 2002-2012 period.

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 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 through 2006 are counted.

	By Fiscal Year, in Millions of Dollars										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Changes in receipts	17	59	102	134	140	147	155	163	174	187	203
Changes in outlays	Not applicable										

IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

JCT has determined that the bill contains no intergovernmental mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

IMPACT ON THE PRIVATE SECTOR

JCT has determined that sections 101, 102, 104, 201-203, and 215 of the bill contain private-sector mandates. JCT has determined that the cost of complying with these mandates would exceed the threshold established by UMRA ($115 million in 2002, adjusted annually for inflation) in 2005 and 2006.

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