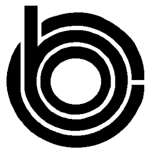

CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 18, 2001

Restoring Earnings to Lift Individuals and Empower Families (RELIEF) Act of 2001

As ordered reported by the Senate Committee on Finance on May 15, 2001

SUMMARY

The Restoring Earnings to Lift Individuals and Empower Families Act of 2001 (RELIEF Act) would amend numerous provisions of tax law to reduce taxes. Provisions of the bill would take effect on different dates. Several of the major provisions—most notably the reductions in personal tax rates and the estate and gift tax—would start in 2002 and phase in over time. Three provisions, including the creation of a new personal income tax bracket with a rate of 10 percent, would apply retroactively to the beginning of 2001. Other provisions would start in later years.

The Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) estimate that enacting the bill would decrease governmental receipts by $33 billion in 2001, by $474 billion over the 2001-2006 period, and by $1.24 trillion over the 2001-2011 period. In addition, enacting the bill would increase direct spending by $47 billion over the 2001-2006 period and by $117 billion over the 2001-2011 period. In total, enacting the bill would reduce projected surpluses by approximately $1.35 trillion over the 2001-2011 period. Since the RELIEF Act would affect direct spending and receipts, pay-as-you-go procedures would apply.

JCT and CBO have determined that the RELIEF Act 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. The bill contains one new private-sector mandate. JCT has determined that the cost of this mandate would not exceed the threshold established by UMRA for private-sector mandates ($113 million in fiscal year 2001, adjusted annually for inflation).

MAJOR PROVISIONS

Title I, Marginal Rate Reduction Provisions, would:

- Create a new regular income tax bracket with a rate of 10 percent,
- Reduce the four highest income tax rates over the 2002-2007 period,
- Increase the starting point of the overall limitation on itemized deductions for all taxpayers (other than married couples filing separate returns) to the existing personal exemption phaseout level, and
- Repeal the phaseout of personal exemptions.

Title II, Increase and Expand the Child Tax Credit, would:

- Increase the child tax credit to $1,000 over 11 years,
- Increase the portion of the child credit that is refundable, and
- Change the treatment of personal credits under the alternative minimum tax.

Title III, Marriage Penalty Relief Provisions, would:

- Set the standard deduction for married taxpayers filing jointly at twice the deduction of a single taxpayer, phased in over the 2006-2011 period,
- For married taxpayers, increase the beginning and ending levels of the income tax bracket with a rate of 15 percent to twice the levels of that bracket for single taxpayers, phased in over the 2006-2011 period, and
- Increase the beginning and ending levels of income at which the earned income credit is phased out for married taxpayers.

Title IV, Education Incentives, would:

- Increase the annual contribution limit of education individual retirement accounts (IRAs), and allow certain additional contributions,
- Allow an income exclusion for distributions from qualified state tuition programs (QTPs), and allow private institutions to offer prepaid tuition programs, and

- Allow and extend certain other exclusions and deductions, and increase limitations on certain other provisions.

Title V, Estate, Gift, and Generation-Skipping Transfer Tax Provisions, would:

- Increase the unified credit and reduce tax rates in order to phase in the repeal in 2011 of estate and generation-skipping transfer taxes,

- Continue the gift tax in 2011 with a lifetime exclusion of $1 million in gifts and a top rate of 40 percent, and

- Require generally that the basis of assets transferred by a decedent at death are unchanged, with limited additions to basis.

Title VI, Pension and Individual Retirement Arrangement Provisions, would:

- Increase contribution limits for individual retirement accounts (IRAs),

- Increase contribution limits for certain pension plans, and

- Modify various pension laws.

Title VII, Individual Alternative Minimum Tax Relief, would increase the AMT exemption amount, effective over the 2001-2006 period.

Title VIII, Other Provisions, would change the due dates for certain corporate estimated tax payments and make other changes.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the RELIEF Act is summarized in the following table. Most of the budgetary effects of the legislation are reductions in revenues. However, the bill also would increase outlays by making various changes to the income tax brackets and rates of taxation. By reducing the amount of taxes owed, those changes would result in a larger portion of tax credits being refundable—and thus recorded as outlays rather than reductions in revenues. The bill also would increase the child credit and earned income credits, which are refundable under the tax code and counted as outlays in the budget. The spending effects of this legislation would fall within budget functions 600 (income security) and 800 (general government).

ESTIMATED BUDGETARY IMPACT OF THE RELIEF ACT

	By Fiscal Year, in Millions of Dollars					
	2001	2002	2003	2004	2005	2006
CHANGES IN REVENUES AND REFUNDABLE TAX CREDIT OUTLAYS						
Title I: Individual Income Tax Rate Reductions	-9,359	-70,876	-57,460	-58,090	-70,157	-76,091
Title II: Child Tax Credit	-583	-10,438	-11,071	-12,711	-17,187	-18,278
Title III: Marriage Penalty Relief	0	-21	-2,088	-2,571	-2,567	-5,665
Title IV: Affordable Education Provisions	0	-2,457	-3,469	-4,661	-5,228	-2,900
Title V: Estate, Gift, and Generation-Skipping Transfer Tax Provisions	0	-5	-4,428	-4,627	-13,015	-14,990
Title VI: Pension and Individual Retirement Arrangement Provisions	0	-1,515	-3,250	-3,416	-3,709	-4,145
Title VII: Alternative Minimum Tax	-157	-2,170	-3,161	-4,120	-6,024	-8,743
Title VIII: Other Provisions	-23,045	23,045	0	-6,606	6,606	0
Total Effect on Revenues and Outlays	-33,144	-64,437	-84,927	-96,802	-111,281	-130,812
Outlays for Refundable Tax Credits	0	7,272	8,777	9,432	10,823	10,912
Total Changes in Revenues [a]	-33,144	-57,165	-76,150	-87,370	-100,458	-119,900
CHANGES IN DIRECT SPENDING						
Outlays for Refundable Tax Credits	0	7,272	8,777	9,432	10,823	10,912
Title VI: Pension, Individual Retirement Arrangement, and Other Provisions [b]	0	2	11	12	12	12
Total Changes in Direct Spending	0	7,274	8,788	9,444	10,835	10,924
TOTAL CHANGES						
Net Decrease in Budget Surpluses	-33,144	-64,439	-84,938	-96,814	-111,293	-130,824

SOURCES: Joint Committee on Taxation and Congressional Budget Office.
NOTE: Components may not sum to totals because of rounding.
a. The Joint Committee on Taxation has determined that certain revenue provisions have direct spending effects from refundable tax credits. Separate estimates of the effect of each proposal on revenues and outlays are not available.
b. The Congressional Budget Office has determined that certain provisions will affect direct spending for the Internal Revenue Service, Pension Benefit Guaranty Corporation, and other organizations. The total of these effects is shown here.

BASIS OF ESTIMATE

Revenues

All the estimates for the revenue provisions, with the exception of the following, were provided by the JCT.

IRS User Fees. The bill would eliminate the fee that the Internal Revenue Service (IRS) charges small businesses for providing ruling, opinion, and determination letters regarding the firms' pension plans if certain conditions are met. This provision would take effect after December 31, 2001. Based on the amount of fees collected in recent years and on information from the IRS, CBO estimates that eliminating the fee would decrease governmental receipts by a total of $16 million over fiscal years 2002 and 2003. Under current law, the IRS's authority to charge such fees will expire at the end of fiscal year 2003, so the provision would have no impact on receipts beyond that year.

Direct Spending

IRS User Fees. The IRS has the authority to retain and spend without further appropriation action a small portion of the fees it collects from taxpayers for certain rulings and determinations by the Office of the Chief Counsel and by the Office for Employee Plans and Exempt Organizations. Because the RELIEF Act would eliminate the fee paid by small businesses for rulings and determinations, the bill would also reduce the amounts available for the IRS to spend. These fees are recorded in the budget as revenues and are scheduled to expire in 2003. CBO estimates that eliminating the fee would decrease direct spending by a total of $2 million over the 2002-2004 period.

Reduced Flat-Rate Premiums Paid to the PBGC. Under current law, defined benefit pension plans operated by a single employer pay two types of annual premiums to the Pension Benefit Guaranty Corporation (PBGC). All covered plans are subject to a flat-rate premium of $19 per participant. In addition, underfunded plans must also pay a variable premium that depends on the amount by which the plan's liabilities exceed its assets. The bill would reduce the flat-rate premium from $19 to $5 per participant for plans established by employers with 100 or fewer employees during the first five years of the plan's operation. According to information obtained from the PBGC, approximately 3,000 plans would qualify for this reduction. Those plans cover an average of about 10 participants each. CBO estimates that the change would reduce PBGC's premium income, which is classified as an offsetting collection, by about $400,000 annually beginning in 2003 and by less than $2 million over the 2003-2006 period.

Reduced Variable Premiums Paid to the PBGC. The bill would make two changes affecting the variable-rate premium paid by underfunded plans. First, for all new plans that are underfunded, the bill would phase in the variable-rate premium. In the first year, plans would pay nothing. In the succeeding four years, they would pay 20 percent, 40 percent, 60 percent, and 80 percent, respectively, of the full amount. In the sixth and later years, they would pay the full variable-rate premium determined by their funding status. Based on information on premiums paid to the PBGC in 1998 and 1999, CBO estimates that this change would affect the premiums of approximately 300 plans each year. CBO estimates that the phase-in of premiums would reduce PBGC's total premium receipts by about $7 million in 2003—the first year that a change in receipts would be effective—and by $28 million over the 2003-2006 period.

The bill would also reduce the variable-rate premium paid by all underfunded plans (not just new plans) established by employers with 25 or fewer employees. Under the bill, the variable-rate premium per participant paid by those plans would not exceed $5 multiplied by the number of participants in the plan. CBO estimates that approximately 3,000 plans would have their premium payments to PBGC reduced by this provision beginning in 2003. CBO estimates that premium receipts would decline by less than $2 million in 2003 and by about $7 million over the 2003-2006 period.

Missing Participants in Terminated Pension Plans. The legislation would expand the PBGC's missing participant program. The Retirement Protection Act of 1994 established a program to locate missing participants when defined benefit plans are terminated. The bill would expand the program to include terminating multiple-employer plans, defined benefit plans not covered by the PBGC, and defined contribution plans.

The budgetary impact of this provision would be less than $500,000 annually. The PBGC does not expect a large number of missing participants as a result of this proposal, and the administrative costs of expanding the program would not be significant. The net budgetary effect of increased benefit payments would also be small. Amounts paid by a pension plan to the PBGC for missing participants are held in the PBGC's trust fund, which is not part of the federal budget. Amounts paid by the PBGC to participants at the time they are located are funded in the same manner as benefit payments to participants in plans for which PBGC is the trustee—partially by the trust fund and partially by on-budget revolving funds.

Authorization for PBGC to Pay Interest on Premium Overpayment Refunds. The legislation would authorize the PBGC to pay interest to plan sponsors on premium overpayments. Interest paid on overpayments would be calculated at the same rate as interest charged on premium underpayments. On average, PBGC receives $19 million a year in

premium overpayments, charges an interest rate of 8 percent for underpayments, and allows for a two-year lag between the receipt of payments and the issuance of refunds. Based on this information, CBO estimates that direct spending would increase by $3 million annually.

Substantial Owner Benefits in Terminated Plans. The legislation would simplify the rules by which the PBGC pays benefits to substantial owners (those with an ownership interest of at least 10 percent) of terminated pension plans. Only about one-third of the plans taken over by the PBGC involve substantial owners, and the change in benefits paid to owner-employees under this provision would be less than $500,000 annually.

Effects of Refundable Tax Credits on Other Benefit Programs. The provision of additional refundable tax credits could have the effect of reducing outlays in certain means-tested benefit programs such as Supplemental Security Income and Medicaid. CBO expects that any such effects would be less than $1 million a year.

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 current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Changes in receipts	-33,144	-57,165	-76,150	-87,370	-100,458	-119,900	-135,997	-144,482	-150,755	-160,490	-173,200
Changes in outlays	0	7,274	8,788	9,444	10,835	10,924	10,992	11,576	12,184	12,779	13,410

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

CBO and JCT 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 the provision to prohibit allocations of stock in an Employee Stock Ownership Plan of a subchapter S corporation would be a new private-sector mandate. JCT estimates that the cost of this mandate would not exceed the threshold established by UMRA for private-sector mandates ($113 million in fiscal year 2001, adjusted annually for inflation).

ESTIMATE PREPARED BY:

Federal Revenues: Erin Whitaker
Pension Benefit Guaranty Corporation: Tamara Ohler
Impact on State, Local, and Tribal Governments: Leo Lex

ESTIMATE APPROVED BY:

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis

G. Thomas Woodward
Assistant Director for Tax Analysis