CONGRESSIONAL BUDGET OFFICE
PAY-AS-YOU-GO ESTIMATE

August 24, 1999

H.R. 2488
Taxpayer Refund Act of 1999

As cleared by Congress on August 5, 1999

SUMMARY

H.R. 2488 would provide a variety of phased-in tax reductions, including lowering the 15-percent income tax rate to 14 percent and expanding the 14 percent bracket, setting the standard deduction for a joint income tax return at twice the single standard deduction, repealing the alternative minimum tax, phasing out the estate tax, reducing capital gains tax rates, and providing deductions for health insurance expenses. The Congressional Budget Office and the Joint Committee on Taxation (JCT) estimate that the bill would decrease governmental receipts by $5 billion in fiscal year 2000, $156 billion over the 2000-2004 period, and $792 billion over the 2000-2009 period. In addition, the legislation would increase direct spending by $26 million over the 2000-2004 period, but would decrease direct spending by $23 million over the 2000-2009 period. Because the bill would affect receipts and direct spending, pay-as-you-go procedures would apply.

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				
	2000	2001	2002	2003	2004
CHANGES IN REVENUES					
Estimated Revenues					
On-Budget	-5,221	-957	-34,521	-52,838	-61,619
Off-Budget	-52	-121	-185	-211	-113
Total Change in Revenues	-5,273	-1,078	-34,706	-53,050	-61,733
CHANGES IN DIRECT SPENDING					
Estimated Budget Authority	2	0	2	2	6
Estimated Outlays	2	3	6	5	9

Sources: Congressional Budget Office and Joint Committee on Taxation.

BASIS OF ESTIMATE

With the exception of the following, all estimates were prepared by JCT.

Revenues

Accelerate the Repeal of the FUTA Surtax. The Federal Unemployment Tax Act (FUTA) imposes on employers an effective tax of 0.8 percent on the first $7,000 in wages paid annually to each employee. This 0.8 percent includes a 0.2 percent surtax scheduled to expire on December 31, 2007. The bill would accelerate the expiration date to December 31, 2004.

Revenues from the FUTA tax are deposited into federal unemployment trust funds, whose balances are statutorily capped. Under current law, CBO projects that the amounts in the federal trust funds will exceed the caps beginning in 2003. Amounts above the caps are transferred to state unemployment compensation trust funds. Since the state funds are included in the unified federal budget, this transfer will have no net budgetary effect. However, CBO expects that states would respond to this transfer by lowering their unemployment taxes so that their trust fund balances would remain constant.

The bill would lower the amount of revenues deposited into the federal trust funds and thus would reduce the amounts flowing to the state funds. CBO assumes that in the year following each lowered transfer, states would respond by not lowering their unemployment taxes as much as they would have, thus increasing revenues relative to current law. CBO estimates that the measure would reduce governmental receipts by $1,029 million in fiscal year 2005 and by lesser amounts in 2006 and 2007. We estimate increases in receipts in fiscal years 2008 and 2009. Over the 2005-2009 period, CBO estimates that the measure would have no net impact on governmental receipts.

IRS User Fees. The bill would adjust and extend the authority of the Internal Revenue Service (IRS) to charge taxpayers fees for certain rulings by the Office of the Chief Counsel and by the Office for Employee Plans and Exempt Organizations. The bill would eliminate the fee the IRS currently charges on determination letter requests regarding small business pension plans under five years old beginning on December 31, 2000. The bill also would extend for six years beyond its current expiration date of September 30, 2003, the authority of the IRS to charge taxpayers fees for certain rulings. CBO estimates that the adjustment and extension of IRS fees would increase governmental receipts by $30 million over the 2001-2004 period and by $298 million during the 2001-2009 period, net of income and payroll tax offsets. CBO based its estimate on recent collections data and on information from the IRS.

Federal Spending

IRS User Fees. The bill would adjust and extend the authority of the IRS to charge taxpayers fees for certain rulings by the Office of the Chief Counsel and by the Office for Employee Plans and Exempt Organizations. The IRS has the authority to retain and spend a small portion of these fees without further appropriation. CBO estimates that the adjustment and extension of fees would increase direct spending by $3 million over the 2001-2004 period and by $18 million over the 2001-2009 period.

Sport Fish Restoration. Repealing the excise tax on fishing tackle boxes would reduce budget authority of the Sport Fish Restoration account. CBO estimates that this provision would reduce mandatory federal outlays by $1 million in fiscal year 2001, $3 million in fiscal year 2002, and $4 million annually beginning in fiscal year 2003.

National Vaccine Injury Compensation Fund and Medicaid. The bill would add conjugate vaccines against streptococcus pneumoniae to the list of taxable vaccines and thus would allow for compensation for injuries related to those vaccines from the National Vaccine Injury Compensation Trust Fund. CBO estimates that this provision would increase outlays by $4 million over the 2000-2004 period. This provision would also 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, the bill would reduce the tax rate applicable to all taxable vaccines from 75 cents per dose to 50 cents per dose for sales of vaccines after December 31, 2004. This provision would reduce the amount of tax that the Medicaid program would be required to pay for vaccines purchased through its Vaccines for Children program and would decrease federal outlays after the effective date by about $15 million annually.

Reduced PBGC Premiums for New Plans. Under current law, single-employer defined benefit pension plans 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 participants 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 contain 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 $0.4 million annually beginning in 2002 or by about $1.3 million over the 2000-2004 period.

Reduction of Additional PBGC Premiums for New and Small Plans. 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. On the basis of information on premium payments to the PBGC in 1996-1997, CBO estimates that this change would affect the premiums of approximately 400 plans each year. It would reduce PBGC's total premium receipts by about $4.2 million over the 2000-2004 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 8,300 plans would have their premium payments to PBGC reduced by this provision beginning in 2002. Premium receipts by the PBGC would decline by $1.5 million in 2002 and by $4.6 million over the 2002-2004 period.

Missing Participants in Terminated Pension Plans. The legislation would expand the missing participant program. The Retirement Protection Act of 1994 established a missing participant program at PBGC for terminating defined benefit plans. The bill would expand the program to include terminating multiemployer plans, defined benefit plans not covered by PBGC, and defined contribution plans.

The budgetary impact of this provision would be less than $0.5 million annually. PBGC does not expect a high volume of missing participants as a result of this proposal, and the administrative costs of expanding the program would not be high. The net budgetary effect of increased benefit payments would also be small. Amounts paid by a pension plan to PBGC for missing participants are held in PBGC's trust fund, which is off-budget. Amounts paid out by 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.

Rules for Benefits of Substantial Owners of 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 PBGC involve substantial owners, and the change in benefits paid by PBGC to owner-employees under this provision would be less than $0.5 million in each 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 governmental receipts and outlays that are subject to pay-as-you-go procedures are shown in the following table. Only changes affecting on-budget outlays and receipts affect the pay-as-you-go scorecard. 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										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Changes in Receipts	0	-5,221	-957	-34,521	-52,838	-61,619	-85,399	-116,872	-140,033	-167,848	-125,481
Changes in Outlays	0	2	3	6	5	9	-5	-10	-10	-11	-11

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