



May 9, 2012

Honorable Chris Van Hollen  
Ranking Member  
Committee on the Budget  
U.S. House of Representatives  
Washington, DC 20515

Dear Congressman:

The Congressional Budget Office (CBO) has reviewed your proposed amendment to Rules Committee print 112-21, the Sequester Replacement Reconciliation Act of 2012. The two enclosed tables present estimates of the legislation's effects on direct spending and revenues under alternative assumptions about the date of enactment. Table 1 provides estimates assuming enactment around October 1, 2012, while Table 2 provides estimates assuming enactment by July 1, 2012, as directed by the Chairman of the House Committee on the Budget for the Sequester Replacement Reconciliation Act.

The amendment would replace the provisions of the Sequester Replacement Reconciliation Act with the following policies:

- Eliminate automatic spending reductions for both discretionary and mandatory programs scheduled for fiscal year 2013;
- End the direct payment program for agricultural producers;
- Raise premiums paid by certain policyholders covered by the National Flood Insurance Program (NFIP);
- Increase tax liabilities of some taxpayers with an adjusted gross income greater than \$1 million by creating a new minimum tax amount; and
- Implement other changes to the tax code and increase retirement contributions paid by Members of Congress.

Assuming enactment around October 1, 2012, CBO and the staff of the Joint Committee on Taxation (JCT) estimate that the Rules Committee Print 112-21, as amended, would yield net deficit reduction of nearly \$30 billion over the 2012-2022 period. (That amount roughly equals the proposal's estimated budgetary effect assuming enactment by July 1, 2012; thus, the different enactment dates would not have a significant impact on the cumulative estimate over the 2012-2022 period.)

**Eliminate Automatic Spending Reductions.** The legislation would eliminate the automatic spending reductions in both discretionary and mandatory programs scheduled to take effect in January 2013. CBO estimates those provisions would increase direct spending by about \$82 billion over the 2012-2022 period, relative to the current baseline projections that assume automatic spending reductions under the Budget Control Act of 2011 go into effect as currently scheduled.

The above total reflects the cost of avoiding sequestration (cancellation of budgetary resources) from unobligated balances for defense programs, from advance appropriations for 2013 for nondefense programs other than those under the Department of Veterans Affairs, and for certain mandatory programs. At this point in time, no other appropriations have been provided for fiscal year 2013. If additional discretionary appropriations are enacted for 2013, more resources would be available to be sequestered, and reversing the automatic reductions would result in an increase of up to \$106 billion in direct spending over the 2013-2022 period, CBO estimates.

**End Direct Payment Program for Agriculture Producers.** The amendment would eliminate direct payments to agricultural producers (payments based on historical acres and yields not tied to market prices), beginning with the 2013 crop, resulting in higher participation and outlays in the remaining agricultural programs, for a net savings of \$26.5 billion over the 2013-2022 period.

**National Flood Insurance Program.** The legislation would make a number of changes to the NFIP, including raising the premium paid by certain subsidized flood insurance policies. Those changes would increase net income to the program by about \$4.9 billion over the 2014-2022 period, CBO estimates. However, because many policies would continue to be subsidized and the program is expected incur significant interest costs for borrowing from the past decade, we expect that additional receipts collected under this legislation would be spent to cover program shortfalls. As such, CBO estimates that provision of the amendment affecting the NFIP would not affect net deficit reduction over the 2012-2022 period.

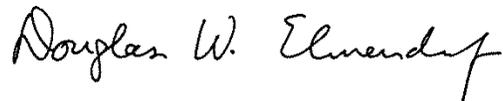
Honorable Chris Van Hollen

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**Revenue Changes.** The legislation would make several changes to the Internal Revenue Code that would result in higher tax revenue. The largest effect stems from the provision to increase tax liabilities of some higher-income taxpayers, which JCT estimates would increase revenues by about \$47 billion over the 2013-2022 period. In addition, the legislation would limit certain deductions and credits used by oil and gas companies, which JCT estimates would increase revenues by an additional \$38 billion over the 2013-2022 period.

If you wish further details on this estimate, we will be pleased to provide them.

Sincerely,

A handwritten signature in black ink that reads "Douglas W. Elmendorf". The signature is written in a cursive style with a large, prominent "D" at the beginning.

Douglas W. Elmendorf  
Director

Enclosure

cc: Honorable Paul Ryan  
Chairman

**Table 1. Estimate of the Effects on Direct Spending and Revenues of an Amendment Submitted by Congressman Van Hollen to the Rules Committee on May 9, 2012, Regarding Rules Committee Print 112-21, the Sequester Replacement Reconciliation Act of 2012, Assuming Enactment Around October 1, 2012**

	By Fiscal Year, in Millions of Dollars												2012-	2012-
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2017	2022	
<b>CHANGES IN REVENUES ASSUMING ENACTMENT AROUND OCTOBER 1, 2012</b>														
Limitation on Section 199 Deduction	0	1,169	832	873	917	963	1,011	1,061	1,114	1,170	1,229	4,753	10,338	
Prohibition on Using Last-in, First-Out Accounting	0	2,202	1,686	1,736	1,787	1,841	1,896	1,954	2,013	2,070	2,128	9,252	19,314	
Modification of Foreign Tax Credit Rules	0	237	582	605	630	655	681	708	737	767	798	2,709	6,400	
Minimum Tax on Taxpayers with AGI in Excess of \$1 million	0	6,211	-6,103	4,529	4,838	5,269	5,743	6,102	6,444	6,706	6,974	14,745	46,714	
Interaction Between Limitation on Section 199 Deduction and Prohibition on Last-in, First-out Accounting	0	248	190	195	201	207	213	220	226	233	239	1,041	2,173	
Retirement Contributions for Members of Congress	<u>0</u>	<u>2</u>	<u>4</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>9</u>	<u>9</u>	<u>10</u>	<u>10</u>	<u>27</u>	<u>73</u>	
<b>TOTAL CHANGES IN REVENUES</b>	0	10,069	-2,809	7,944	8,380	8,943	9,553	10,054	10,543	10,956	11,378	32,527	85,012	
<b>CHANGES IN DIRECT SPENDING ASSUMING ENACTMENT AROUND OCTOBER 1, 2012</b>														
Elimination of Automatic Spending Reductions <sup>a</sup>														
Estimated Budget Authority	0	84,416	0	0	0	0	0	0	0	0	0	84,416	84,416	
Estimated Outlays	0	45,527	21,478	11,906	2,186	546	0	0	0	0	0	81,643	81,643	
End Direct Payment Program for Agricultural Producers														
Estimated Budget Authority	0	0	-4,972	-1,685	-2,469	-3,053	-3,051	-3,131	-2,804	-2,522	-2,862	-12,179	-26,549	
Estimated Outlays	0	0	-4,972	-1,685	-2,469	-3,053	-3,051	-3,131	-2,804	-2,522	-2,862	-12,179	-26,549	

Continued

Table 1. continued	By Fiscal Year, in Millions of Dollars												2012-	2012-
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2017	2022	
National Flood Insurance Program <sup>b</sup>														
Estimated Budget Authority	0	0	-60	-150	210	0	0	0	0	0	0	0	0	
Estimated Outlays	0	0	-60	-150	210	0	0	0	0	0	0	0	0	
<b>TOTAL CHANGES IN DIRECT SPENDING</b>														
Estimated Budget Authority	0	84,416	-5,032	-1,835	-2,259	-3,053	-3,051	-3,131	-2,804	-2,522	-2,862	72,237	57,867	
Estimated Outlays	0	45,527	16,446	10,071	-73	-2,507	-3,051	-3,131	-2,804	-2,522	-2,862	69,464	55,094	
<b>INCREASE OR DECREASE (-) IN THE DEFICIT ASSUMING ENACTMENT AROUND OCTOBER 1, 2012</b>														
<b>NET EFFECT ON DEFICITS</b>	0	35,458	19,255	2,127	-8,453	-11,450	-12,604	-13,185	-13,347	-13,478	-14,240	36,937	-29,918	
<b>Memorandum:</b>														
Changes in Direct Spending if Additional Appropriations are Provided for 2013 <sup>a</sup>														
Estimated Authorization Level	0	107,080	0	0	0	0	0	0	0	0	0	107,080	107,080	
Estimated Outlays	0	65,243	26,030	9,679	3,320	1,973	0	0	0	0	0	106,245	106,245	
Increased Net Income to the National Flood Insurance Program <sup>c</sup>	0	0	-60	-150	-265	-405	-580	-775	-830	-890	-945	-880	-4,900	

Sources: Congressional Budget Office and the staff of the Joint Committee on Taxation.

Notes: AGI = Adjusted Gross Income; FEMA = Federal Emergency Management Agency. Estimates are relative to CBO's March 2012 baseline; components may not sum to totals because of rounding.

- a. Assuming enactment prior to further appropriations being provided for 2013. The cost would stem from canceling the sequestration of existing balances for discretionary defense programs, most advance appropriations for discretionary nondefense programs, and spending for certain mandatory programs. If additional appropriations are enacted, the direct spending cost of canceling the sequestration would rise to about \$106 billion, as shown in the memorandum.
- b. In addition, CBO estimates that implementing the amendment would result in discretionary spending of about \$1.2 billion over the 2012-2022 period, assuming appropriation of the necessary amounts, for flood mapping and mitigation programs of the Federal Emergency Management Agency.
- c. The proposed amendment would raise premiums for certain subsidized flood insurance policies, increasing net income to the National Flood Insurance Program by \$4.9 billion. However, because many policies would continue to be subsidized and the program would continue to face significant interest costs from its prior and future borrowing, CBO expects that additional receipts collected under this legislation would be spent to cover future program shortfalls, resulting in no net effect on the budget over the 11-year period.

**Table 2. Estimate of the Effects on Direct Spending and Revenues of an Amendment Submitted by Congressman Van Hollen to the Rules Committee on May 9, 2012, Regarding Rules Committee Print 112-21, the Sequester Replacement Reconciliation Act of 2012, Assuming Enactment by July 1, 2012**

	By Fiscal Year, in Millions of Dollars												2012-	2012-
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2017	2022	
<b>CHANGES IN REVENUES ASSUMING ENACTMENT BY JULY 1, 2012</b>														
Limitation on Section 199 Deduction	377	792	832	873	917	963	1,011	1,061	1,114	1,170	1,229	4,754	10,339	
Prohibition on Using Last-in, First-Out Accounting	0	2,202	1,686	1,736	1,787	1,841	1,896	1,954	2,013	2,070	2,128	9,252	19,314	
Modification of Foreign Tax Credit Rules	0	237	582	605	630	655	681	708	737	767	798	2,709	6,400	
Minimum Tax on Taxpayers with AGI in Excess of \$1 million	1,111	5,100	-6,103	4,529	4,838	5,269	5,743	6,102	6,444	6,706	6,974	14,745	46,714	
Interaction Between Limitation on Section 199 Deduction and Prohibition on Last-in, First-out Accounting	0	248	190	195	201	207	213	220	226	233	239	1,041	2,173	
Retirement Contributions for Members of Congress	<u>0</u>	<u>2</u>	<u>4</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>9</u>	<u>9</u>	<u>10</u>	<u>10</u>	<u>27</u>	<u>73</u>	
<b>TOTAL CHANGES IN REVENUES</b>	1,488	8,581	-2,809	7,944	8,380	8,943	9,553	10,054	10,543	10,956	11,378	32,528	85,013	
<b>CHANGES IN DIRECT SPENDING ASSUMING ENACTMENT BY JULY 1, 2012</b>														
Elimination of Automatic Spending Reductions <sup>a</sup>														
Estimated Budget Authority	0	84,416	0	0	0	0	0	0	0	0	0	84,416	84,416	
Estimated Outlays	0	45,527	21,478	11,906	2,186	546	0	0	0	0	0	81,643	81,643	
End Direct Payment Program for Agricultural Producers														
Estimated Budget Authority	0	0	-4,972	-1,685	-2,469	-3,053	-3,051	-3,131	-2,804	-2,522	-2,862	-12,179	-26,549	
Estimated Outlays	0	0	-4,972	-1,685	-2,469	-3,053	-3,051	-3,131	-2,804	-2,522	-2,862	-12,179	-26,549	

Continued

Table 2. continued	By Fiscal Year, in Millions of Dollars											2012-	2012-
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2017	2022
National Flood Insurance Program <sup>b</sup>													
Estimated Budget Authority	0	0	-60	-150	210	0	0	0	0	0	0	0	0
Estimated Outlays	0	0	-60	-150	210	0	0	0	0	0	0	0	0
<b>TOTAL CHANGES IN DIRECT SPENDING</b>													
Estimated Budget Authority	0	84,416	-5,032	-1,835	-2,259	-3,053	-3,051	-3,131	-2,804	-2,522	-2,862	72,237	57,867
Estimated Outlays	0	45,527	16,446	10,071	-73	-2,507	-3,051	-3,131	-2,804	-2,522	-2,862	69,464	55,094
<b>INCREASE OR DECREASE (-) IN THE DEFICIT ASSUMING ENACTMENT BY JULY 1, 2012</b>													
<b>NET EFFECT ON DEFICITS</b>	-1,488	36,946	19,255	2,127	-8,453	-11,450	-12,604	-13,185	-13,347	-13,478	-14,240	36,936	-29,919
<b>Memorandum:</b>													
Changes in Direct Spending if Additional Appropriations are Provided for 2013 <sup>a</sup>													
Estimated Authorization Level	0	107,080	0	0	0	0	0	0	0	0	0	107,080	107,080
Estimated Outlays	0	65,243	26,030	9,679	3,320	1,973	0	0	0	0	0	106,245	106,245
Increased Net Income to the National Flood Insurance Program <sup>c</sup>	0	0	-60	-150	-265	-405	-580	-775	-830	-890	-945	-880	-4,900

Sources: Congressional Budget Office and the staff of the Joint Committee on Taxation.

Notes: AGI = Adjusted Gross Income; FEMA = Federal Emergency Management Agency. Estimates are relative to CBO's March 2012 baseline; components may not sum to totals because of rounding.

- a. Assuming enactment prior to further appropriations being provided for 2013. The cost would stem from canceling the sequestration of existing balances for discretionary defense programs, most advance appropriations for discretionary nondefense programs, and spending for certain mandatory programs. If additional appropriations are enacted, the direct spending cost of canceling the sequestration would rise to about \$106 billion, as shown in the memorandum.
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