# CONGRESSIONAL BUDGET OFFICE
# COST ESTIMATE

March 19, 2010

# H.R. 4849
## Small Business and Infrastructure Jobs Tax Act of 2010

*As ordered reported by the House Committee on Ways and Means on March 17, 2010*

## SUMMARY

H.R. 4849 would provide a variety of tax incentives to small businesses and extend and expand certain other tax incentives and bond programs. The legislation also would limit the ability of U.S. subsidiaries of foreign corporations to benefit from U.S. tax treaties.

The Joint Committee on Taxation (JCT) estimates that enacting the bill would increase federal revenues by about $42.7 billion over the 2010-2020 period and increase direct spending by about $42.6 billion over the 2010-2020 period. As a result, the bill would produce an estimated reduction in deficits of $82 million over the 2010-2020 period.

Pay-as-you-go procedures apply because enacting the legislation would affect both direct spending and revenues.

JCT has determined that the bill contains three private-sector mandates and no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). JCT estimates that the costs of the bill's mandates would exceed the annual threshold established by UMRA for private-sector mandates ($141 million in 2010, adjusted annually for inflation) in each of the first five years the mandates are in effect.

## ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 4849 is shown in the following table. This legislation's effects on federal spending fall within budget function 370 (commerce and housing credit).

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2010-2015 | 2010-2020 |
| **CHANGES IN REVENUES** | | | | | | | | | | | | | |
| Build America Bonds | 0 | 527 | 2,138 | 3,214 | 3,661 | 3,661 | 3,661 | 3,661 | 3,661 | 3,661 | 3,661 | 13,201 | 31,506 |
| Limitation on Treaty Benefits | 302 | 636 | 668 | 702 | 719 | 737 | 756 | 775 | 794 | 814 | 832 | 3,764 | 7,735 |
| Minimum Term for Certain Trusts | 0 | 4 | 12 | 121 | 260 | 381 | 507 | 621 | 743 | 857 | 945 | 778 | 4,450 |
| Exclusion of Gain on Small Business Stock | 2 | 16 | 6 | 0 | 0 | -338 | -923 | -454 | -123 | -91 | -57 | -314 | -1,962 |
| Recovery Zone Bonds | 4 | -34 | -101 | -125 | -118 | -115 | -108 | -108 | -108 | -108 | -108 | -489 | -1,032 |
| Information Reporting for Rental Expense Payments | 0 | * | 227 | 239 | 251 | 261 | 275 | 285 | 299 | 314 | 325 | 978 | 2,476 |
| Other Provisions | -147 | -259 | -130 | 100 | 104 | 66 | 32 | -4 | -41 | -68 | -114 | -266 | -461 |
| Total Estimated Changes in Revenues | 161 | 890 | 2,820 | 4,251 | 4,877 | 4,653 | 4,200 | 4,776 | 5,225 | 5,379 | 5,484 | 17,651 | 42,711 |
| **CHANGES IN DIRECT SPENDING** | | | | | | | | | | | | | |
| Build America Bonds | | | | | | | | | | | | | |
| Estimated Budget Authority | 0 | 672 | 2,701 | 3,995 | 4,514 | 4,514 | 4,514 | 4,514 | 4,514 | 4,514 | 4,514 | 16,396 | 38,966 |
| Estimated Outlays | 0 | 672 | 2,701 | 3,995 | 4,514 | 4,514 | 4,514 | 4,514 | 4,514 | 4,514 | 4,514 | 16,396 | 38,966 |
| Low-Income Housing Credit | | | | | | | | | | | | | |
| Estimated Budget Authority | 1,605 | 705 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2,310 | 2,310 |
| Estimated Outlays | 1,605 | 705 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2,310 | 2,310 |
| Recovery Zone Bonds | | | | | | | | | | | | | |
| Estimated Budget Authority | 14 | 70 | 141 | 141 | 141 | 141 | 141 | 141 | 141 | 141 | 141 | 648 | 1,353 |
| Estimated Outlays | 14 | 70 | 141 | 141 | 141 | 141 | 141 | 141 | 141 | 141 | 141 | 648 | 1,353 |
| Total Estimated Changes in Spending | | | | | | | | | | | | | |
| Estimated Budget Authority | 1,619 | 1,447 | 2,842 | 4,136 | 4,655 | 4,655 | 4,655 | 4,655 | 4,655 | 4,655 | 4,655 | 19,354 | 42,629 |
| Estimated Outlays | 1,619 | 1,447 | 2,842 | 4,136 | 4,655 | 4,655 | 4,655 | 4,655 | 4,655 | 4,655 | 4,655 | 19,354 | 42,629 |
| **NET INCREASE OR DECREASE(-) IN THE DEFICIT FROM CHANGES IN REVENUES AND DIRECT SPENDING** | | | | | | | | | | | | | |
| Estimated Deficit Impact [a] | 1,458 | 557 | 22 | -115 | -222 | 2 | 455 | -121 | -570 | -724 | -829 | 1,703 | -82 |

Note: * = revenue gain of less than $500,000.

a. Negative numbers indicate a reduction in the deficit; positive numbers indicate the opposite.

## BASIS OF ESTIMATE

JCT estimated all of the effects of H.R. 4849 on both revenues and outlays.

### Revenues

**Build America Bonds.** The Build America Bond program, which was created in 2009, currently provides a subsidy payment to state and local governments for 35 percent of their interest costs on taxable government bonds issued before January 1, 2011, to finance capital expenditures. H.R. 4849 would extend the program for bonds issued before April 1, 2013. It also would set subsidy payments at 33 percent of the interest payment on bonds issued in 2011, 31 percent on bonds issued in 2012, and 30 percent on those issued in 2013, and would ease the restrictions on bonds that qualify for the program. By substituting taxable for tax-exempt bonds, the program increases taxable income. As a result, JCT estimates that the provision would increase revenues by $31.5 billion over the 2010-2020 period. (It also would increase federal outlays by an estimated $39.0 billion over the 2010-2020 period, as discussed below.)

**Limitation on Treaty Benefits.** The bill would change tax provisions that in some cases allow a U.S. subsidiary of a foreign corporation to avoid U.S. withholding tax on payments to a related subsidiary in a country that has a tax treaty with the United States. JCT estimates that this provision would increase revenues by $7.7 billion over the 2010-2020 period.

**Minimum Term for Certain Trusts.** H.R. 4849 would require that grantor retained annuity trusts have a minimum 10-year term in order to qualify for a reduced valuation upon transfer for purposes of gift taxation. JCT estimates that the provision would increase receipts by $4.5 billion over the period from 2010 to 2020.

**Exclusion of Gain on Small Business Stock.** The bill would temporarily increase the exclusion from taxable income on the amount of gain on sales of small business stock from 75 percent to 100 percent of the gain, through December 31, 2011. JCT estimates that the change would reduce revenues by $2.0 billion from 2010 to 2020.

**Recovery Zone Bonds.** The bill would extend the allowance period for state and local governments to issue recovery zone bonds by one year, through 2011, and provide an additional $10 billion in authority to issue recovery zone economic development bonds and $15 billion in authority to issue recovery zone facility bonds. JCT estimates that the provision would reduce revenues by $1.0 billion from 2010 to 2020. (The provision also would result in higher direct spending, as discussed below.)

**Information Reporting for Rental Expense Payments.** Current law requires a variety of information reports be made available for expense payments for rental property. This provision would require a recipient of more than $600 in rental income in a given year to be treated as a person engaged in a trade or business for reporting requirements. JCT estimates that this provision would increase revenues by $2.5 billion over the 2010-2020 period.

**Other provisions.** H.R. 4849 also would make other changes, including modifying certain tax-exempt bond authority and allowing certain tax credits to apply against the alternative minimum tax, which JCT estimates would reduce revenues by $0.5 billion over the 2010-2020 period.

### Direct Spending

**Build America Bonds.** JCT estimates that the modifications to the Build America Bond program would result in additional outlays of $39.0 billion over the 2010-2020 period.

**Low-Income Housing Credits.** The bill would allow certain taxpayers in 2010 to elect to receive direct payments in lieu of tax credits for low-income housing. The payments would equal 85 percent of the present value of the forgone tax credit. JCT estimates that the provision would increase outlays by $2.3 billion over the 2010-2020 period.

**Recovery Zone Bonds.** By increasing the allowance to issue additional bonds for recovery zones, some of which are subsidized by direct federal payments, the bill would result in additional subsidy payments to the issuers of $1.4 billion over the 2010-2020 period, JCT estimates.

## PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget reporting and enforcement procedures for legislation affecting direct spending or revenues. CBO estimates that enacting H.R. 4849 would increase both direct spending and revenues, and would increase the deficit over the 2010-2015 period, but would reduce the cumulative deficits over the 2010-2020 period.

The net changes in outlays and revenues that are subject to pay-as-you go procedures are shown in the following table.

**CBO Estimate of Pay-As-You-Go Act Effects for H.R. 4849, the Small Business and Infrastructure Jobs Tax Act of 2010, as Ordered Reported by the House Committee on Ways and Means on March 17, 2010**

| | By Fiscal Year, in Millions of Dollars | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2010-2015 | 2010-2020 |
| | **NET INCREASE OR DECREASE (-) IN THE DEFICIT** | | | | | | | | | | | | |
| Statutory Pay-As-You Go Impact | 1,458 | 557 | 22 | -115 | -222 | 2 | 455 | -121 | -570 | -724 | -829 | 1,703 | -82 |
| **Memorandum:** | | | | | | | | | | | | | |
| Changes in Outlays | 1,619 | 1,447 | 2,842 | 4,136 | 4,655 | 4,655 | 4,655 | 4,655 | 4,655 | 4,655 | 4,655 | 19,354 | 42,629 |
| Changes in Revenues | 161 | 890 | 2,820 | 4,251 | 4,877 | 4,653 | 4,200 | 4,776 | 5,225 | 5,379 | 5,484 | 17,651 | 42,711 |

## INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

JCT has determined that the bill contains three private-sector mandates as defined in UMRA: (i) a limitation on treaty benefits; (ii) a requirement to provide information reporting for expense payments for rental property; and (iii) a requirement that grantor retained annuity trusts ("GRATs") have a minimum 10-year term. In aggregate, the costs of all the mandates in the bill would exceed the annual threshold established by UMRA for private-sector mandates ($141 million in 2010, adjusted annually for inflation) in each of the first five years the mandates are in effect.

JCT has determined that the bill contains no intergovernmental mandates as defined in UMRA.

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