CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 21, 2018

H.R. 6756
American Innovation Act of 2018

As ordered reported by the House Committee on Ways and Means on September 13, 2018

SUMMARY

H.R. 6756, the American Innovation Act of 2018, would amend the Internal Revenue Code by modifying the deduction for start-up and organizational expenditures and the treatment of losses, carryforwards and unused pre-change tax credits for companies after an ownership change. The bill raises the amount which may be deducted for start-up and organizational expenditures. In addition, it removes some limitations on the use of losses, carryforwards, and unused pre-change tax credits for new loss corporations that have experienced an ownership change.

The staff of the Joint Committee on Taxation (JCT) estimates that enacting the bill would reduce revenues by $5,416 million over the 2019-2028 period. Pay-as-you-go procedures apply because enacting the legislation would affect revenues.

JCT estimates that enacting the legislation would increase on-budget deficits by more than $5 billion in at least one of the four consecutive 10-year periods beginning in 2029. CBO and JCT estimate that enacting the bill would not increase net direct spending in any of the four consecutive 10-year periods beginning in 2029.

JCT has determined that the tax provisions of the bill contain no intergovernmental or private sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary effect of H.R. 6756 is shown in the following table.

	By Fiscal Year, in Millions of Dollars												
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2023	2019-2028
						CHANGES IN REVENUES							
Simplification and expansion of deduction for start-up and organizational expenditures	0	-44	-109	-153	-198	-246	-295	-346	-399	-456	-518	-750	-2,764
Preservation of start-up net operating losses and tax credits after ownership changes	0	-17	-32	-55	-90	-144	-225	-329	-459	-592	-709	-338	-2,652
Total Estimated Changes in Revenues	**0**	**-61**	**-141**	**-208**	**-288**	**-390**	**-520**	**-675**	**-858**	**-1,048**	**-1,227**	**-1,088**	**-5,416**
						NET INCREASE IN THE DEFICIT FROM DECREASES IN REVENUES							
Effect on Deficit	**0**	**61**	**141**	**208**	**288**	**390**	**520**	**675**	**858**	**1,048**	**1,227**	**1,088**	**5,416**

Source: Staff of the Joint Committee on Taxation.

Components may not add to totals due to rounding.

BASIS OF ESTIMATE

The Congressional Budget Act of 1974, as amended, stipulates that revenue estimates provided by the staff of the Joint Committee on Taxation will be the official estimates for all tax legislation considered by the Congress. As such, CBO incorporates those estimates into its cost estimates of the effects of legislation. All of the estimates for the provisions of H.R. 6756 were provided by JCT.[1] The date of enactment is generally assumed to be October 1, 2018.

Simplification and Expansion of Deduction for Start-up and Organizational Expenditures. Under current law, business start-up expenditures may be deducted in the amount of $5,000 in the taxable year in which a business or trade was started. Up to $5,000 of organizational expenditures may also be deducted. The amount deducted in both cases is reduced by the amount by which the cumulative cost of start-up and organizational expenditures exceeds $50,000.

1. For JCT's description of the bill and estimates of the provisions, which include detail beyond the summary presented below, see Joint Committee on Taxation, Description of H.R. 6756, the "American Innovation Act of 2018," JCX-76-18, https://www.jct.gov/publications.html?func=startdown&id=5142, and Estimated Revenue Effects of H.R. 6756, the "American Innovation Act of 2018," JCX-78-18, https://www.jct.gov/publications.html?func=startdown&id=5144.

H.R. 6756 would raise the amount that could be deducted for start-up and organizational expenditures to $20,000 for the combined total of start-up and organizational expenses. This is reduced by the amount by which the sum of start-up and organizational expenditures exceeds $120,000. The dollar amounts are adjusted for inflation beginning in 2020. H.R. 6756 also allows partnerships or corporations liquidated within a 180-month period and disposed or discontinued businesses to deduct any unamortized start-up expenses. JCT estimates that the changes in this provision would reduce revenues by $2,764 million from 2019 to 2028.

Preservation of Start-Up Net Operating Losses and Tax Credits after Ownership Changes. Under current law, companies that experience an ownership change may offset taxable income by the pre-change net operating losses (NOLs), unused pre-change tax credits, and net capital losses of the original corporation subject to certain limitations. Pre-change credits from the old loss corporation may include unused general business credits, alternative minimum tax credits, and foreign tax credits. The pre-change NOL amount that can be used to offset taxable income is limited to the value of the old loss corporation before the ownership change multiplied by the long-term tax-exempt interest rate. Use of pre-change credits and net capital losses to offset the tax liability of the new loss corporation are likewise limited. Similarly limited carryforwards of both losses and pre-change credits may also be used provided the new loss corporation continues the business of the old corporation for a two-year period.

H.R. 6756 generally provides for an exception to the limitations for pre-change net operating and capital losses, unused credits, and carryforwards in the case of a start-up. The bill would allow the new loss firm to fully utilize pre-change losses, unused credits and carryforwards identified as accruing to the old loss firm as a result of start-up activity. Use of any remaining pre-change losses, unused credits or carryforwards of the old loss firm would then be subject to the limitations. Business continuity conditions still apply for the use of carryforwards. JCT estimates that this provision would reduce revenues by $2,652 million from 2019 to 2028.

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

CBO Estimate of Pay-As-You-Go Effects for H.R. 6756, as ordered reported by the House Committee on Ways and Means on September 13, 2018.

	By Fiscal Year, in Millions of Dollars												
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2019-2023	2019-2028
NET INCREASE IN THE ON-BUDGET DEFICIT													
Statutory Pay-As-You-Go Effects	0	61	141	208	288	390	520	675	858	1,048	1,227	1,088	5,416

Source: Staff of the Joint Committee on Taxation.

Components may not add to totals due to rounding.

INCREASE IN LONG-TERM DIRECT SPENDING AND DEFICITS

JCT estimates that enacting H.R. 6756 would increase on-budget deficits by more than $5 billion in at least one of the four 10-year periods beginning in 2029. CBO and JCT estimate that enacting the bill would not increase net direct spending in any of the four consecutive 10-year periods beginning in 2029.

MANDATES

JCT has determined that H.R. 6756 contains no private-sector or intergovernmental mandates as defined by UMRA.

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