CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

February 6, 2008

Economic Stimulus Act of 2008

As ordered reported by the Senate Committee on Finance on January 30, 2008

SUMMARY

The Economic Stimulus Act of 2008 would provide rebates to individuals who satisfy certain income requirements and allow businesses to use special rules for the carryback of net operating losses and the depreciation and immediate deduction of certain types of capital investments made in taxable year 2008. Additionally, the bill would extend unemployment compensation for a maximum of 26 weeks and provide several tax incentives for the use of renewable energy technologies.

The Congressional Budget Office and the Joint Committee on Taxation (JCT) estimate that enacting the bill would:

- Decrease revenues by $100 billion in 2008 and by a net amount of $89 billion over the 2008-2018 period; and

- Increase direct spending by $58 billion in 2008 and $67 billion over the 2008-2018 period.

In total, these changes would increase budget deficits (or reduce future surpluses) by $158 billion in 2008 and by a net amount of $156 billion over the 2008-2018 period.

In addition, CBO estimates that implementing the legislation would have discretionary costs of $0.3 billion over the 2008-2018 period, assuming appropriation of the necessary amounts.

Pursuant to section 203 of S. Con Res. 21, the Concurrent Resolution on the Budget for Fiscal Year 2008, CBO and JCT estimate that changes in direct spending and revenues from enacting the bill would not cause an increase in the on-budget deficit greater than $5 billion in any of the 10-year periods between 2018 and 2057.

CBO and JCT have determined that the bill contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the bill is shown in the following table. The spending effects of this legislation fall within budget functions 600 (income security) and 800 (general government).

ESTIMATED BUDGET IMPACT OF THE ECONOMIC STIMULUS ACT OF 2008, AS ORDERED REPORTED BY THE SENATE COMMITTEE ON FINANCE ON JANUARY 30, 2008

	By Fiscal Year, in Billions of Dollars												
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2008-2013	2008-2018
CHANGES IN REVENUES													
Rebates for Individuals	-66.9	-6.0	0	0	0	0	0	0	0	0	0	-72.9	-72.9
Section 179 Deduction Limits	-0.9	-0.6	0.5	0.3	0.2	0.2	0.1	0.1	*	*	*	-0.3	-0.1
Partial Expensing of Investment	-16.4	-20.2	1.7	7.8	6.8	5.3	3.3	2.1	1.1	0.9	0.9	-15.1	-6.7
Loss-Carryback Period	-15.0	-8.1	3.6	3.6	3.1	2.3	1.7	1.3	1.0	0.7	0.5	-10.4	-5.1
Energy Credits, Other Provisions	-0.5	-1.1	-1.1	-0.3	-0.4	-0.4	-0.3	-0.4	-0.4	-0.4	-0.4	-3.8	-5.6
Rules for Private-Activity Bonds	*	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.8	-1.7
Unemployment Insurance	0	0.1	0.2	0.2	0.1	0.1	0.3	0.4	0.5	0.7	0.9	0.7	3.6
Total Revenue Changes	-99.6	-36.0	4.6	11.3	9.7	7.3	4.9	3.3	2.1	1.8	1.9	-102.7	-88.7
CHANGES IN DIRECT SPENDING (OUTLAYS) [a]													
Rebates for Individuals	47.2	4.9	0	0	0	0	0	0	0	0	0	52.0	52.0
Payments to U.S. Territories	1.0	0.3	0	0	0	0	0	0	0	0	0	1.4	1.4
Unemployment Insurance	10.1	4.5	0	0	0	0	0	-0.2	-0.3	-0.3	-0.4	14.6	13.5
Refunds for Excise Tax on Exported Coal	0.1	0	0	0	0	0	0	0	0	0	0	0.1	0.1
Total Direct Spending Changes [a]	58.4	9.7	0	0	0	0	0	-0.2	-0.3	-0.3	-0.4	68.1	67.0
CHANGES IN SPENDING SUBJECT TO APPROPRIATION													
Administrative Costs													
Estimated Authorization Level	0.2	0.1	0	0	0	0	0	0	0	0	0	0.3	0.3
Estimated Outlays	0.2	0.1	0	0	0	0	0	0	0	0	0	0.3	0.3

Sources: Congressional Budget Office and Joint Committee on Taxation.

Notes: * = gain or loss of less than $50 million; components may not add to totals because of rounding.

a. For all direct spending changes, budget authority equals outlays.

BASIS OF THE ESTIMATE

For this estimate, JCT and CBO assume that the bill will be enacted by March 1, 2008, and that spending will follow historical patterns for similar activities.

Revenues

Rebates for Individuals. Under the bill, individuals with a positive tax liability in tax years 2007 or 2008 or a sum total of earned income, Social Security benefits, and veterans' disability payments of at least $3,000 would be eligible for a tax rebate. Such individual taxpayers and persons filing joint tax returns would receive rebates of $500 and $1,000, respectively. Additionally, taxpayers receiving the rebate would also receive a $300 rebate for each dependent child living in their household who would also qualify for the child tax credit under current law. The amount of the aggregate rebate would begin to be phased out for individuals with an adjusted gross income exceeding a certain threshold. Those thresholds are $150,000 and $300,000 for taxpayers filing individual and joint tax returns, respectively. JCT estimates that the rebates for individuals would reduce revenues by $66.9 billion in 2008 and $6.0 billion in 2009. The provisions would also have direct spending effects, which are discussed in the following section.

Business Tax Provisions. The bill would allow businesses to elect one of three possible tax benefits in 2008. Because much of the revenue effect of those provisions results from an acceleration in the timing of deductions, initial revenue losses would be followed by revenue increases in later years. JCT estimates that the provisions would reduce revenues by $61.1 billion in fiscal years 2008 and 2009 and increase revenues by $49.2 billion over the 2010-2018 period.

Section 179 Deduction Limit and Phaseout Threshold. The first such provision would increase the deduction allowed under section 179 of the Internal Revenue Code for the cost of purchasing certain types of property. Under current law, a business is permitted to deduct from taxable income up to $128,000 of the cost of certain types of property purchased in tax year 2008 rather than spreading that deduction out over future years through depreciation expenses. The $128,000 deduction begins to phase out once the business's property investment expenses exceed $510,000. The provision would increase the deduction amount allowed for tax year 2008 and the phaseout threshold to $250,000 and $800,000, respectively. JCT estimates that enacting this provision would reduce revenues by $0.9 billion in 2008 and $0.1 billion over the 2008-2018 period.

Partial Expensing of Investment. The second provision would allow a business to partially expense (immediately deduct from taxable income) a portion of its investment in certain types of equipment acquired in 2008. This deduction would equal 25 percent of the cost of acquiring the property, and it would be applied in both tax years 2008 and 2009. In subsequent years, the remaining value of the property would be subject to current depreciation rules. JCT estimates that enacting this provision would decrease revenues by $16.4 billion in 2008 and $6.7 billion over the 2008-2018 period.

Carryback Period for Net Operating Losses. The third provision would modify the rules by which firms can use losses from an unprofitable year to offset taxable income from an earlier year and receive a refund of past taxes paid. Generally under current law, a net operating loss can be carried back to the prior two tax years. The bill would extend the carryback period to five years for any net operating losses originating in tax years 2006, 2007, and 2008. The bill would also suspend a limitation under the alternative minimum tax that applies to the use of net operating losses for those years. JCT estimates that enacting this provision would decrease revenues by $15.0 billion in 2008 and $5.1 billion over the 2008-2018 period.

Energy Credits and Other Provisions. The bill would extend several tax credits for production, investment, and consumer purchases that pertain to certain renewable and efficient energy technologies, including an extension of the period for which an electricity producer can claim a facility that uses such technologies as qualifying for a production credit. The bill would also extend the allowance of an increased deduction for producers of marginal oil and natural gas, and would provide for refunds of excise taxes imposed on coal exported from the United States (see discussion under direct spending below). JCT estimates that enacting these provisions would decrease revenues by $5.6 billion over the 2008-2018 period.

Rules for Private-Activity Bonds. The bill would authorize state housing authorities to issue a total of $10 billion in private-activity bonds, to be used as mortgage-revenue bonds and multifamily bonds (which finance multifamily housing projects). Those bonds, which could be used to refinance subprime mortgage loans, would have to be issued by December 31, 2010. Additionally, the interest earned on such mortgage revenue bonds would be considered exempt from the alternative minimum tax. JCT estimates that enacting these provisions would decrease revenues by $1.7 billion over the 2008-2018 period.

Unemployment Insurance. Title II would establish a program for temporary extended unemployment compensation (TEUC) that would be available to all states. Funds in the Extended Unemployment Compensation Account would be transferred to the states for this purpose.

Because the state unemployment funds are included in the federal budget, those transfers would have no immediate budgetary effect. However, the TEUC program would interact with provisions of the federal unemployment law known as the "Reed Act." Under those provisions, when funds in the federal accounts of the unemployment trust fund exceed certain statutory limits, excess revenues from the federal unemployment tax are transferred to the state accounts. In CBO's most recent baseline, we project that the federal government would transfer about $9 billion to the states over the 2013-2018 period. We estimate that this transfer would lead states to reduce their unemployment tax rates in subsequent years. Because receipts from those taxes are recorded as revenues in the federal budget, such reductions would result in lower federal revenues.

Under the baseline, CBO estimates that revenues would decline by about $2.9 billion over the 2014-2018 period, with additional revenue losses occurring after 2018. CBO estimates that transfers to states under the TEUC program would reduce the federal trust fund balances to levels that would preclude such Reed Act transfers, resulting in revenues that would be $2.9 billion higher than our baseline projections of revenues over the 2014-2018 period. The interaction between the transfers under the TEUC program and the Reed Act also would affect direct spending, as discussed in the following section.

CBO estimates that direct spending for regular unemployment benefits would increase during 2008 and 2009, as discussed below. CBO expects that some states would respond to the lower balances in their unemployment trust funds by increasing their unemployment taxes, resulting in an increase of $0.7 billion in revenues over the 2009-2013 period.

Direct Spending

Rebates for Individuals. Some individuals who would receive the rebate pay no income taxes, or the rebate would exceed the amount of the income taxes they do pay. Those rebates that exceed individuals' income tax liability would be classified as direct spending in the budget. As a result, JCT estimates that the rebate provisions would increase direct spending by $47.2 billion in 2008 and $4.9 billion in 2009.

Payments to U.S. Territories. Section 101 would require the Department of the Treasury to provide payments to the United States territories in an amount equal to the loss to each territory from the payment of the individual tax rebate (as discussed earlier under "Revenues"). In general, residents of U.S. territories—Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, and the Northern Mariana Islands—are U.S. citizens, but are not required to pay federal income taxes. However, some territories have a tax system that follows the U.S. tax provisions exactly, while others have their own tax system that differs from the U.S. system. Those that follow the U.S. system would, under the bill, issue rebates to eligible taxpayers. CBO expects that territories with non-mirror tax systems would also meet the requirements of this provision by issuing rebates to their residents. Based on data from those U.S. territories and in consultation with JCT, CBO estimates that providing reimbursements to U.S. territories for individual tax rebates would increase direct spending by $1.0 billion in 2008 and $0.3 billion in 2009.

Unemployment Insurance. Most states' regular unemployment compensation programs provide up to 26 weeks of benefits to qualified individuals. Under the bill, the TEUC program would provide federal funding for additional benefits—up to 13 weeks in all states—to beneficiaries who exhaust their regular benefits. (Individuals who exhausted their regular benefits in the previous year also would be eligible for TEUC). An additional 13 weeks of benefits would be provided in states that meet specified thresholds or triggers with respect to unemployment. States would be eligible for the additional 13 weeks of benefits if unemployment levels reach either the triggers for the extended benefits (EB) program, new triggers equal to an insured unemployment rate of 4 percent or higher, or a total unemployment rate of 6.5 percent or higher. (CBO expects that a few states would qualify to provide that additional 13 weeks of benefits.)

Based on the number of people who exhausted regular benefits in the past year, as well as those anticipated to exhaust benefits in the coming year, CBO estimates that about 4.2 million people would collect TEUC in fiscal years 2008 and 2009, and that benefits paid over that period would total $13.2 billion. Administrative costs related to the TEUC program would total $0.8 billion, CBO estimates. Additionally, CBO estimates that the outlays for regular unemployment benefits would increase by $0.8 billion due to the effect of the availability of the TEUC benefits on some recipients' employment decisions. (Most of those costs would be offset by increases in state revenues over fiscal years 2009 through 2013, as discussed above in the section on revenues.)

Those costs would be slightly offset by reduced payments from other federal programs that provide extended unemployment benefits—the EB program and trade adjustment assistance for workers. CBO estimates those offsets would amount to $0.2 billion in 2008 and 2009.

Interactions between the Reed Act and the TEUC program also would have an effect on direct spending. CBO's baseline includes outlays from the Reed Act transfers totaling $1.1 billion from 2014 to 2018. Under the bill, outlays for TEUC would reduce the federal trust fund balances to levels that would preclude such Reed Act transfers. Thus, relative to CBO's baseline projections, outlays under the bill would be $1.1 billion lower.

CBO estimates that the net effect of unemployment-related provisions on direct spending would total $14.6 billion over the 2008-2013 period and $13.5 billion over the 2008-2018 period.

Refunds for Excise Tax on Exported Coal. The bill would allow coal producers and exporters to claim a refund for excise taxes imposed on coal exported from the United States. Those taxes have been ruled unconstitutional. Refunds of the principal amount would be treated as revenues, while refunds of the interest on those payments would be treated as direct spending. JCT estimates that refunding such payments would decrease revenues and increase outlays in 2008 by $0.2 billion and $0.1 billion, respectively. That estimate is based on two factors: the number of outstanding court cases involving coal producers and exporters currently seeking repayment of coal export taxes (as well as interest on those earlier payments), and on the average court settlement for previous cases. JCT assumes that all payments for pending cases would be made in 2008. Payments in 2008 accelerate some settlements that may have occurred in later years; as a result, JCT estimates that between 2009 and 2018 revenues would increase by $0.2 billion, exactly offsetting the revenue decrease in 2008. (Those revenue effects are included in the line for energy credits and other provisions in the table.)

Spending Subject to Appropriation

The bill would provide tax rebates to individual taxpayers, specific tax deductions for businesses, and various energy tax provisions. Based on information from the Internal Revenue Service, the agency's historical spending for similar activities, and information from the Financial Management Service, CBO estimates that implementing the bill would cost $0.3 billion over the 2008-2009 period, assuming appropriation of the necessary amounts.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

CBO and JCT have determined that the provisions of the Economic Stimulus Act of 2008 contain no intergovernmental or private-sector mandates as defined in UMRA. CBO estimates that the changes to the unemployment compensation system would result in reduced federal transfers to states and also would lead to increased unemployment taxes in some states. These effects, however, would result from states' participation in the federal unemployment insurance program, which is voluntary, and would not result from intergovernmental mandates as defined in UMRA.

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