U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Grassley, Baucus Send Budget Views and Estimates Letter

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, and Sen. Max Baucus, ranking member, today sent the Budget Committee their views and estimates regarding federal spending and revenues within the jurisdiction of the Committee on Finance for Fiscal Year 2005. The text of their letter follows.

February 25, 2004

The Honorable Don Nickles
Chairman
Senate Committee on the Budget
United States Senate
Washington, D.C. 20510

The Honorable Kent Conrad
Ranking Member
Senate Committee on the Budget
United States Senate
Washington, D.C. 20510

Dear Don and Kent:

Pursuant to section 301(d) of the Congressional Budget Act of 1974, we are submitting our views and estimates with respect to federal spending and revenues within the jurisdiction of the Senate Committee on Finance for Fiscal Year 2005.

Revenues

Legislative Response to World Trade Organization's Ruling on Foreign Sales Corporation ("FSC")/Extraterritorial Income ("ETI") Regime. In 2001, the World Trade Organization ruled that the FSC/ETI regime is not permitted under the General Agreement on Tariffs and Trade ("GATT"). The Administration and Congress have agreed to respond to the ruling. Accordingly, on November 7, 2003, the Finance Committee reported S. 1637, the "Jumpstart Our Business Strength (JOBS) Act," which would repeal the FSC/ETI regime and replace it with a domestic manufacturing deduction. The package would also make reforms to the U.S. international tax regime. There has been some discussion about processing this legislation under reconciliation instructions. Because of procedural hurdles and attendant delays in processing this legislation under reconciliation, the Committee believes that this legislation should be processed under regular order.

Tax Compliance and Simplification. The Finance Committee has reported legislation that addresses abusive tax shelters, including legislation recommended by the Joint Committee on Taxation in its February 2003 report on the investigation of Enron's tax returns. This legislation also includes provisions addressing certain abusive leasing transactions with tax-exempt entities. The Finance Committee has also reported legislation to curtail corporate inversions and address the tax consequences of individual expatriation. The Committee will continue to develop proposals to curtail abuses of the tax laws.

Retirement Security Reforms. On February 7, 2004, the Finance Committee approved a group of retirement security reforms. These measures are designed to protect workers from some of the abuses of employer stock that occurred in the Enron and WorldCom scandals. This package also contains a long-term substitute for the 30-year Treasury rate, and reforms of non-qualified deferred compensation plans. The Committee may consider additional reforms to the defined benefit funding rules. Finally, the Committee may consider proposals related to cash balance plan accrual and transition rules.

Incentives for Energy Production and Conservation. The Finance Committee has previously approved and may again consider legislation designed to create incentives for energy production and conservation. These energy-related tax provisions were included in the "Energy Policy Act of 2003", which passed the Senate in the first session of the 108th Congress. If the conference report to the Energy Policy Act of 2003 is not enacted, the Finance Committee may again consider energy tax incentive proposals.

Small Business and Rural America Economic Development. We are both committed to promoting legislation in support of the agricultural communities that has previously passed the Senate. Such a package would help rural communities, community banks, cooperatives, farmers, ranchers, and fishermen. In addition, the Committee intends to consider other legislation related to economic development for small businesses.

Expiring Tax Provisions and Permanent Tax Relief. There are tax provisions that expired in 2003 and are scheduled to expire during the 2004 budget period, including the research and experimentation tax credit and provisions from the 2001 bipartisan tax relief package. The Finance Committee may consider proposals to extend or modify expiring tax provisions.

Highway Trust Fund. The authorization for expenditures from the Highway Trust Fund is scheduled to expire on February 29, 2004. The Senate has passed a highway reauthorization bill with $318 billion in contract authority. The highway and highway safety programs are completely funded with excise taxes into the Trust Fund. Additionally, the Mass Transit Program is mostly funded by excise taxes from the Highway Trust Fund. When the Federal highway program is re-authorized, the excise taxes that fund the Highway Trust Fund, the expenditure authority, and other tax-related provisions will need to be addressed.

Education. The Higher Education Act is up for reauthorization this year, and the Finance Committee may report a tax title for this bill. The tax title would likely include provisions to increase the affordability of post-secondary education, and promote access to such educational opportunities. It may also include provisions to simplify the education incentives in the Code.

Incentives for Charitable Giving. The Finance Committee has approved legislation that enhances support for charitable organizations. This legislation contains tax relief measures aimed at individuals and businesses.

Tax Administration Good Government Act. On February 2, 2004, the Finance Committee approved legislation to improve the operations of the Internal Revenue Service (IRS) and strengthen taxpayer protections. The bill will afford taxpayers additional safeguards in their dealings with the IRS, improve administration of the tax laws, reform interest and penalty provisions, and modernize procedures of the U.S. Tax Court. The package also simplifies the tax laws by eliminating more than 60 deadwood provisions and provides for a “uniform definition of qualifying child” for purposes of five different tax benefits related to children.

IRS Budget

In 2002, former IRS Commissioner Rossotti stated in his report to the IRS Oversight Board that the IRS does not have the resources to pursue identified tax debtors and cheats. The numbers provided in his report are staggering: 60 percent of identified tax debts are not pursued, 75 percent of taxpayers who did not file a tax return are not pursued, and 79 percent of identified taxpayers who use abusive devices (e.g., offshore accounts) to evade tax are not pursued. The National Taxpayer Advocate’s 2003 Annual Report to Congress estimates that in the year 2001 a gross tax gap of $311 billion existed. The gap consisted of $30 billion due to non-filing, $249 billion due to underreporting, and $32 billion due to underpaying, resulting in an overall non-compliance rate of 15 percent.

The Administration's fiscal year 2005 budget request of $10.674 billion and 101,272 positions for IRS represents an increase of $490 million and 2,217 positions over fiscal year 2004 levels. Much of this increase is to be allocated to substantially restore an enforcement presence to the IRS. However, we are concerned that inflation costs will consume much, if not all, of the budget increase and will not be sufficient to provide IRS with the necessary resources to combat areas where non-compliance is greatest.

The FY 2005 Budget Resolution should allow for sufficient funds to ensure the IRS is able to restore its enforcement presence and close its workload gaps without sacrificing its quality of taxpayer service.

TANF Reauthorization

In 1996 Congress passed landmark welfare reform legislation, ending the sixty-year old Aid to Families with Dependent Children (AFDC) program and replacing it with the Temporary Assistance for Needy Families (TANF) block grant. Under programs authorized under the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), aid is no longer an entitlement and states are required to move welfare recipients into work. Congress gave states substantial flexibility to achieve this goal. The 1996 reform law was one of the most ambitious domestic policy efforts of recent decades.

In September, 2003, the Senate Finance Committee reported legislation which would reauthorize and modify the programs authorized under PRWORA. Notably, the Committee approved legislation which makes the Contingency Fund more accessible for states, allows states to pass through and distribute more child support funds to needy families, extends Transitional Medical Assistance (TMA) for 5 years and provides a $1 billion increase in child care funding. The Committee-approved bill would increase funding for these programs by $ 5.2 billion over the 2004 – 2008 period and by $8.7 billion over the 2004 – 2013 period.

We believe that new budget should reflect the priorities identified by the Senate Finance Committee. Additionally, we believe that additional child care dollars will be needed so that states will not have to reduce the number of families receiving this key work support.

We are also reviewing the financing of the child welfare system. The President's FY 2004 budget includes a creative proposal that would better address the needs of abused and neglected children by allowing the States to move to an alternative financing system for foster care. We plan to review this proposal and other financing reform ideas to ensure they will improve the safety of children and their odds of finding permanent loving homes. We hope to work with the Administration to craft innovative legislation that achieves these bipartisan goals.

Medicare

After many years of effort and debate, Congress last year enacted the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA). The successful completion of the MMA represents the fulfillment of a longstanding promise to our nation's seniors and individuals with disabilities for an improved and strengthened Medicare program that provides coverage for outpatient prescription drugs.

Beginning this June, the MMA will provide immediate relief to beneficiaries for their prescription drug costs through a prescription drug discount card program, which will also provide $600 in 2004 and 2005 to beneficiaries with incomes below 135 percent of the federal poverty level who are not enrolled in Medicaid. Under the MMA, a voluntary program of prescription drug coverage will begin in 2006 that provides a universal drug benefit, with additional assistance to those with the highest prescription drug costs and to those with lower incomes and limited resources. Under the voluntary drug benefit, it is estimated that the average senior will save about half off their annual drug costs in exchange for an estimated annual monthly premium of $35. Lower income beneficiaries will have access to enhanced coverage that will cover an estimated 85 – 98 percent of prescription costs with lower or no monthly premium.

The prescription drug benefit created by the MMA provides important beneficiary protections such as grievance and appeals processes, pharmacy access standards, fraud and abuse oversight, and formulary standards. In addition, any plan seeking to participate as a Medicare prescription drug plan must submit a bid and plan design to the Secretary, and the proposed plan must meet or surpass the standards established in law. In addition to the standards already mentioned, the Secretary must ensure, for example, that plan offerings are not designed to game the system by encouraging enrollment by only healthy beneficiaries while discouraging enrollment by those who are less healthy.

The MMA also overhauls and revitalizes the Medicare+Choice program so that more beneficiaries can have voluntary access to private plans at a local or regional level. Medicare Advantage plans will provide comprehensive Medicare benefits and services in addition to an integrated prescription drug benefit. Today, beneficiaries private plan choices are limited to local plan options, such as Health Maintenance Organizations. The MMA creates new private plan options for beneficiaries through regional preferred provider organization (PPO) plans. Regional plans will provide coverage options in rural areas as well as urban and suburban areas, which will mean that more beneficiaries should have the option to consider obtaining their Medicare benefits through a private plan. This overhaul of the Medicare+Choice program provides a more predictable and stable payment mechanism for plans and strives to make the federal government a better business partner so that beneficiaries who enroll in private plans can be assured of consistent and reliable coverage.

The newly enacted MMA also addresses the long-term stability of the Medicare program in a number of ways. For example, the MMA includes provisions to charge higher-income beneficiaries a higher premium for Medicare Part B and to curb Medicare overpayments to certain health care providers and suppliers that have been the focus of review by the General Accounting Office and HHS inspector general.

Through the MMA, Congress also provided for the largest package of rural Medicare reimbursement enhancements in the history of the program. This $25 billion commitment over ten years represents the most dramatic improvement in rural health care any Congress has ever enacted. This increased funding for hospitals, physicians and other health care providers will make a marked difference in keeping access to health care in rural areas where reimbursement levels are far below what is paid in other regions of the country.

In recognition of the immense implementation responsibilities placed on the Centers for Medicare and Medicaid Services (CMS), the MMA provides $1 billion, which is available to the agency through September 30, 2005. In addition, the MMA provides $500 million to the Social Security Administration to provide resources necessary for implementation responsibilities assigned to the SSA.

Medicaid and S-CHIP

The Medicaid and State Children's Health Insurance Program (S-CHIP) programs play an increasingly important role in the U.S. health care system. Together, Medicaid and S-CHIP provide health insurance coverage to more than 51 million Americans. Enrollment and combined federal and state spending for Medicaid and S-CHIP now exceed that of Medicare.

We expect continued discussion on the Medicaid program. Careful consideration should be given to the impact of any proposal on Medicaid recipients, on providers, and on states. Any changes must not contribute to an increase in the number of the uninsured, reduce the access of recipients to needed services, or undermine advances made in the quality of care in institutions and the community. Further, the federal government must remain vigilant in its efforts to identify and address fraud and abuse within the Medicaid program.

In sum, as we consider changes to the Medicaid program, we will need to be mindful of our most vulnerable populations. Whether beneficiaries live in rural areas or cities, Congress must ensure that they are treated equally, that cost sharing changes do not deter necessary care for low-income beneficiaries and that the disabled and elderly receive an appropriate level of care.

Finally, it is expected that there will be unspent S-CHIP funds from FY1998, FY1999, and FY2000 that are set to expire at the end of FY2004 that will instead need to be retained and redistributed among the states. It is critically important that Congress pass legislation, to ensure that these funds remain within S-CHIP program because there are still uninsured children lacking coverage for which they are eligible.

Uninsured

A recent Census Bureau report showed that the number of Americans without insurance rose 2.4 million to 43.6 million. The percentage of families without coverage who earn $25,000 to $49, 999 rose from 17.3 percent to 19.3 percent. Despite widespread recognition that lack of health insurance coverage and the growing ranks of the uninsured is a national crisis, Congress has not been able to agree on policies to address the problem. While some believe that the best approach is to provide tax incentives to individuals or employers, others believe that expanding public programs and providing greater access to group insurance coverage is a preferable approach.

A bipartisan solution to increase health insurance coverage must involve a comprehensive approach that combines tax incentives and public programs. This approach is consistent with the view that some populations are best served by public programs, such as those with very low-incomes, people with disabilities, and others for whom employer-sponsored coverage is not an option. Other populations are better served through the provision of tax subsidies, either directed to individuals or employers. Still other efforts may be needed to seed and support state high-risk health insurance pools and other group-based health insurance alternatives, like those authorized under the Trade Act of 2002. Last year we introduced legislation to expand these programs to individuals that are receiving unemployment compensation.

Last year's budget resolution included $50 billion in a reserve fund for proposals to expand coverage to the uninsured. We note that the president's FY2005 budget proposes $71 billion for coverage expansions. We hope that we can make bipartisan progress in the second session of the 108th congress to address the issue of the uninsured.

Extension of QIs

Certain Medicare beneficiaries, known as Qualified Individuals (QIs), whose incomes fall between 120 and 135 percent of the federal poverty level are eligible to have their Part B premiums paid by the Medicaid program. In 2004, these premiums increased 13.5 percent, and this increased the cost of Part B premiums for one year to nearly $800; which is a considerable amount for this low-income population. The program has been extended on a temporary basis for the past two years. We are requesting that the program be extended for an additional year in the FY 2005 budget.

New Freedom Initiative

The New Freedom Initiative (NFI) promotes full access to community life by focusing on incorporating the principles of the *Olmstead* Supreme Court decision into a series of demonstration projects. The cornerstone of these demonstration projects is "Money Follows the Person," which is a new program to help Americans with disabilities transition from nursing homes or other institutions to living in the community.

NFI continues the commitment by Congress and the Administration to create more options for people with disabilities. In 1999, Congress passed the Ticket to Work and Work Incentives

Improvement Act allowing people with disabilities the option to have a job and engage more fully with their community. NFI builds off of these principles by identifying and eliminating barriers to community living including access to consumer direction and respite care. As a result, we believe that NFI should be included in the 2005 Congressional budget.

It is our belief that a specific allocation for the New Freedom Initiative should be included in the FY 2005 budget with sufficient funding according to Congressional Budget Office estimates for these demonstration projects.

Family Opportunity Act

The Finance Committee requested and received a budget allocation specifically for the "Family Opportunity Act" in the FY 2004 budget. This legislation, which has 63 Senate cosponsors, unanimously passed the Finance Committee for the second time in June 2003. We believe that a specific allocation at least as great as the cost of the bill passed by the Finance Committee, adjusted to account for the FY 2005 baseline, should be made for this legislation in the FY 2005 budget.

Trade

The Finance Committee will continue its extensive oversight efforts over the Homeland Security Act of 2002 which transfers some of Customs functions from Treasury to the Department of Homeland Security. The Committee will continue to monitor this transition and other efforts to enhance our domestic security to ensure that the careful balance between the need for strong border security and an open international economy is preserved.

The Committee will also continue to oversee the application of U.S. trade remedy laws, particularly with reference to major trade disputes involving softwood lumber and steel.

With the passage of the Bipartisan Trade Promotion Authority Act, the Finance Committee will continue to conduct oversight over a number of international trade negotiations, including: (1) discussions aimed at concluding a new agreement under the aegis of the World Trade Organization; (2) negotiations to complete a Free Trade Area of the Americas; (3) multilateral negotiations on a U.S.-South African Customs Union Free Trade Agreement, and; (4) bilateral negotiations on a U.S.-Bahrain Free Trade Agreement, a U.S.-Panama Free Trade Agreement, a U.S.-Colombia Free Trade Agreement, a U.S.-Peru Free Trade Agreement, and a U.S.-Thailand Free Trade Agreement.

The Finance Committee may also consider legislation to implement a U.S.-Central America Free Trade Agreement, a U.S.-Australia Free Trade Agreement, and a U.S.-Morocco Free Trade Agreement. The Committee may also consider legislation to provide preferential trade treatment to the Republic of Turkey, legislation to authorize permanent normal trade relations with Russia and/or Armenia, legislation to authorize normal trade relations with Laos, legislation to ensure fair access for U.S. agricultural exports (particularly to Mexico), legislation to enhance and expand the Africa Growth and Opportunity Act, legislation to expand U.S. trade preference programs for countries in the Middle East, and legislation to improve and/or expand Trade Adjustment Assistance programs. The Committee may also review legislation to repeal U.S. laws which are found inconsistent with our World Trade Organization obligations, legislation to create a commission to review decisions of the World Trade Organization, and legislation to ease trade and travel restrictions with Cuba.

Social Security

The Social Security system is projected to run significant annual surpluses over the next decade. However, soon after the baby boomer generation begins to reach retirement age, these annual surpluses will diminish and ultimately turn into deficits. The Finance Committee is committed to finding a bipartisan solution to the financial problems facing Social Security. Although developing a plan to protect and improve Social Security will be a complex and challenging task, we believe our efforts can succeed if Democrats and Republicans are willing to work together in a spirit of bipartisanship.

Currently, many applicants to the Social Security Disability Insurance (SSDI) program and the disability portion of the Supplemental Security Income (SSI) program face significant delays. Indeed, waiting times can exceed three years in some cases. Such delays create serious financial and emotional stress for the applicants and their families. According to the Social Security Administration (SSA) these waiting times result from both huge backlogs of cases and from inefficiencies in the processing of disability claims. The Commissioner has developed a detailed plan to address these problems. Part of the Commissioner’s plan calls for eliminating the backlog of cases by 2008, but this requires an increase in financial resources for the agency. The President’s Budget proposes the full amount of resources that are called for in the Commissioner’s plan for Fiscal Year 2005. The Finance Committee urges that the Budget Resolution assume the full amount of funding proposed by the President for Social Security’s administrative operations for FY05.

The President has proposed that budgetary caps be enacted for all discretionary spending for Fiscal Years 2004 and 2005. He has also proposed that the discretionary caps could be adjusted to include special funds for several designated purposes. One of the purposes for which the caps could be adjusted is to provide $561 million for the SSA to conduct Continuing Disability Reviews (CDRs). These reviews detect and prevent improper payments, and thereby save $10 for each dollar spent – according to the President’s Budget. We recommend that any discretionary caps included in the Budget Resolution, or adopted by the Senate, reflect this potential adjustment.

Social Security taxes and benefits are given special status in that they are considered “off-budget." The cost of administering the program, however, remains within the overall cap on discretionary spending in the rest of the budget. We recommend that the Budget Committee take legislative steps to make the budgetary treatment of Social Security taxes, benefits, and administrative costs consistent.

Black Lung Trust Fund

The President's budget includes a proposal to refinance the Black Lung Disability Trust Fund. The Black Lung program provides benefits to certain disabled workers, and their families or survivors. These benefits are funded by an excise tax on coal. Although the current rate is projected to exceed future benefits, operating deficits incurred in past have resulted in an accumulated debt that is growing exponentially. The annual interest payments on this debt are expected to exceed annual revenue for the indefinite future. Without debt restructuring, the Trust Fund will never become solvent and the debt will never be repaid.

The Committee may consider legislation to refinance the Trust Fund debt in a budget neutral manner that allows the program to take advantage of today's lower interest rates and thereby repay its debt and restore solvency to its Trust Fund.

Unemployment Insurance

Last year, Congress passed legislation to provide for extended unemployment benefits to be paid through the end of December, 2003. To date, this legislation has not been extended. Depending on how the economic and employment situation develops this year, a further extension of benefits may be considered.

Sincerely,

Chuck Grassley
Chairman

Max Baucus
Ranking Member