



CONGRESSIONAL BUDGET OFFICE  
U.S. Congress  
Washington, DC 20515

May 25, 2006

Honorable Max Baucus  
Ranking Democratic Member  
Committee on Finance  
United States Senate  
Washington, DC 20510

Dear Senator:

I am pleased to respond to your letter of May 18, which poses questions regarding CBO's cost estimate for the conference agreement on H.R. 4297, the Tax Increase Prevention and Reconciliation Act of 2005. Specifically, the letter asks why CBO concluded that there was no outlay effect from section 509 (which involves partial payments required with submission of offers-in-compromise) and what experts CBO consulted in arriving at its conclusion.

Under present procedures, offers-in-compromise from taxpayers must be accompanied by a \$150 filing fee. That payment is in addition to the actual settlement that may be agreed upon, and it is not refundable in the event the offer is rejected. Nonetheless, in order to delay collection of liability, a number of taxpayers make offers-in-compromise even though they expect them to be rejected. More important, a significant fraction of offers fail to generate fees because they are returned as unprocessable. The income that is generated from the fees is treated as negative outlays in the budget, and the Internal Revenue Service is allowed to spend those sums without appropriation action.

Section 509 makes two changes. First, it requires taxpayers making an offer-in-compromise to make a partial payment of their tax liability in addition to paying the existing filing fee. Second, the section provides for the filing fee to be credited toward the final settlement. Because the partial payment of tax liability is also nonrefundable, the first change could result in fewer fee-generating offers intended primarily to delay collection. However, the crediting of the fee reduces the cost of making serious offers and could result in more offers from taxpayers who might otherwise have been reluctant to make them. Both of those effects are small; the first because the reduction in offers

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would come largely from offers that would not have generated fees because they would have been unprocessable; the second because the filing fee is typically a small fraction of the final settlement. The net outcome of those two offsetting effects on the volume of fee-generating offers, and thus the amount of fees collected, is not certain.

As you are aware, CBO shares responsibility with the Joint Committee on Taxation (JCT) in generating estimates of the costs of legislation; CBO is required to use JCT's estimates of revenue effects in all instances of changes in the Internal Revenue Code (2 U.S.C. §601(f)). As a result, CBO maintains limited in-house expertise in certain fields of tax analysis—such as tax compliance and administration—in which JCT is knowledgeable.

In cases such as this, when CBO must estimate effects on outlays that stem from tax code changes affecting tax compliance and administration, we consult with JCT to obtain its expert judgment. Such consultation reduces duplication of effort and helps make CBO's outlay estimates consistent with JCT's revenue assumptions. In this matter, JCT's analysts estimated that section 509 will produce no change in income from fees. On the basis of JCT's understanding of the underlying tax compliance and administration issue, we accepted their judgment and incorporated it into CBO's cost estimate. Because there is no estimated effect on the amount of fees collected, there is also no estimated effect on IRS spending of those fees.

I hope this information is helpful to you. If you have further questions, I would be happy to discuss them with you.

Sincerely,



Donald B. Marron  
Acting Director

cc: Honorable Charles E. Grassley  
Chairman

Thomas A. Barthold  
Joint Committee on Taxation