CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 6, 2011

H.R. 2832
An act to extend the Generalized System of Preferences, and for other purposes

As passed by the Senate on September 22, 2011

SUMMARY

H.R. 2832 would temporarily and retroactively extend the Generalized System of Preferences (GSP) and provisions related to Trade Adjustment Assistance (TAA) and the Health Coverage Tax Credit (HCTC). In addition, the act would require states to make certain changes to laws that govern their unemployment programs to improve recovery and prevent overpayments of benefits. H.R. 2832 also would modify provisions that govern Medicare Quality Improvement Organizations (QIOs) and would change merchandise processing fee rates.

Enacting H.R. 2832 would reduce revenues and direct spending by nearly identical amounts over the 2012-2021 period. On balance, CBO estimates that enacting the legislation would reduce deficits over the 2012-2021 period by $6 million. Pay-as-you-go procedures apply because enacting the legislation would affect direct spending and revenues.

In addition, CBO estimates that implementing H.R. 2832 would have a discretionary cost of $171 million over the 2012-2021 period, subject to appropriation of the amounts authorized for TAA for Firms and TAA for Farmers.

CBO has determined that the provisions of H.R. 2832 contain no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA).

S. 2832 would impose mandates on importers of most goods and on private entities that provide health insurance for separated workers. CBO estimates that the aggregate cost of private-sector mandates would exceed the threshold established in UMRA ($142 million in 2011, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2832 is shown in the following table. The costs of this legislation fall within budget functions 350 (agriculture), 450 (community and regional development), 500 (education, employment, training, and social services), 550 (health), 570 (Medicare), 600 (income security), and 750 (administration of justice).

	By Fiscal Year, in Millions of Dollars											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-2016	2012-2021
CHANGES IN DIRECT SPENDING												
TAA for Workers												
Estimated Budget Authority	483	463	231	5	-20	-20	-21	-21	-21	-22	1,162	1,057
Estimated Outlays	271	398	348	143	10	-20	-20	-21	-21	-22	1,170	1,066
TAA for Farmers												
Estimated Budget Authority	0	0	90	0	0	0	0	0	0	0	90	90
Estimated Outlays	0	0	0	0	0	0	0	0	0	0	0	0
Health Coverage Tax Credit												
Estimated Budget Authority	62	55	-16	-28	-28	-27	-26	-26	-25	-24	46	-82
Estimated Outlays	62	55	-16	-28	-28	-27	-26	-26	-25	-24	46	-82
Unemployment Compensation												
Estimated Budget Authority	0	-26	-71	-88	-83	-77	-76	-79	-83	-86	-268	-669
Estimated Outlays	0	-26	-71	-88	-83	-77	-76	-79	-83	-86	-268	-669
Medicare												
Estimated Budget Authority	0	0	-10	-30	-40	-40	-50	-50	-50	-60	-80	-330
Estimated Outlays	0	0	-10	-30	-40	-40	-50	-50	-50	-60	-80	-330
Merchandise Processing Fees												
Estimated Budget Authority	-573	-443	-623	-653	-115	200	210	221	0	0	-2,406	-1,775
Estimated Outlays	-573	-443	-623	-653	-115	200	210	221	0	0	-2,406	-1,775
Total Direct Spending												
Estimated Budget Authority	-28	49	-399	-794	-286	36	37	45	-179	-192	-1,456	-1,709
Estimated Outlays	-240	-16	-372	-656	-256	36	38	45	-179	-192	-1,538	-1,790
CHANGES IN REVENUES												
Extend GSP	-980	-503	0	0	0	0	0	0	0	0	-1,482	-1,482
Health Coverage Tax Credit	-16	-15	4	7	7	7	7	7	7	6	-12	22
Unemployment Compensation Program Integrity	0	0	-1	-11	-27	-44	-55	-60	-62	-64	-39	-324
Total Revenues [a]	-996	-518	3	-4	-20	-37	-48	-53	-55	-58	-1,533	-1,784
NET INCREASE OR DECREASE (-) IN THE BUDGET DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES												
Impact on the Deficit	756	502	-375	-652	-236	73	86	98	-124	-134	-5	-6

(Continued)

TABLE CONTINUED

	By Fiscal Year, in Millions of Dollars											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-2016	2012-2021
CHANGES IN SPENDING SUBJECT TO APPROPRIATION												
TAA for Firms												
Estimated Authorization Level	16	16	4	0	0	0	0	0	0	0	36	36
Estimated Outlays	2	6	9	9	7	3	0	0	0	0	33	36
TAA for Farmers												
Estimated Authorization Level	90	90	23	0	0	0	0	0	0	0	203	203
Estimated Outlays	45	56	29	5	0	0	0	0	0	0	135	135
Total Changes												
Estimated Authorization Level	106	106	27	0	0	0	0	0	0	0	239	239
Estimated Outlays	47	62	38	14	7	5	3	0	0	0	168	171

Sources: Congressional Budget Office and the staff of the Joint Committee on Taxation.

Note: TAA = Trade Adjustment Assistance; GSP = Generalized System of Preferences.

a. Positive numbers indicate decreases in deficits; negative numbers indicate increases in deficits.

BASIS OF ESTIMATE

For purposes of this estimate, CBO assumes that H.R. 2832 will be enacted early in fiscal year 2012 and that amounts authorized to be appropriated will be provided each year.

Direct Spending

CBO estimates that enacting H.R. 2832 would decrease direct spending by $1.8 billion over the 2012-2021 period. The act would affect spending for TAA for Workers, the HCTC, unemployment compensation, Medicare, and merchandise processing fees.

TAA for Workers. H.R. 2832 would temporarily and retroactively extend certain provisions of the TAA for Workers program that had been enacted in 2009. TAA for Workers provides job training and extended unemployment benefits to qualified individuals. Among other things, the provisions in H.R. 2832 would extend coverage to workers in the service industry (under current law, only workers involved in manufacturing can qualify for benefits under the TAA for Workers program, though service workers were temporarily covered until February 2011). The act would extend that coverage through December 2013. TAA for Workers would then return to the level at which it is currently authorized for one year, through 2014, but with a reduction to the maximum number of weeks an individual could receive benefits.

Consistent with the budget projection rules in section 257 of the Balanced Budget and Emergency Deficit Control Act, most of the costs of extending TAA for Workers at its current level are included in CBO's baseline and are therefore not included in the costs attributable to this legislation. That spending assumed in CBO’s baseline totals $9 billion over the 2012-2021 period. Under current law, the program is authorized through February 2012. The legislation would extend and temporarily increase that authorization through 2013, and then extend the authorization at a lower level through 2014. Consistent with the baseline rule, CBO assumes that TAA for Workers would continue at the level in place for the last year in which it is authorized. (The reduction in the maximum number of weeks for eligible individuals does not effectively reduce spending below current baseline levels until 2016 and thereafter.) On balance, CBO estimates that the changes proposed in H.R. 2832 would increase costs for TAA for Workers, relative to the current baseline, by $271 million in 2012 and by $1,066 million over the 2012-2021 period.

TAA for Farmers. The act directs that beginning January 1, 2014, key sections of the Trade Act of 1974 be applied as in effect on February 13, 2011, with some exceptions. In one exception, the bill would provide $90 million in budget authority for calendar year 2014 for trade adjustment assistance for farmers. Based on information from the Department of Agriculture, however, CBO estimates that amount would not be spent over the 2014-2021 period.

Health Coverage Tax Credit (HCTC). H.R. 2832 also would temporarily and retroactively extend provisions of the HCTC that were first enacted in 2009, but that expired in February 2011. The HCTC is a refundable tax credit that subsidizes the cost of health insurance and is available to individuals who qualify for the TAA for Workers program and to individuals who receive benefits through the Pension Benefit Guaranty Corporation. The changes in H.R. 2832 would increase the amount of the credit from 65 percent to 72.5 percent effective February 13, 2011, and also would extend various changes to the definition of qualifying insurance and credit. The act would sunset the health coverage tax credit (for all qualifying individuals) after December 31, 2013. As a result, provisions of the act would reduce outlays and increase revenues after that date.

The staff of the Joint Committee on Taxation estimate provisions affecting the HCTC would increase outlays by $62 million in 2012. Because of the sunset provision, outlays would be $82 million lower over the 2012-2021 period. (That estimate reflects the net savings of sunsetting the HCTC, which would be partially offset by higher outlays for federal health expenditures.) The HCTC provisions also would affect revenues, as discussed below under the heading “Revenues.”

Unemployment Compensation. H.R. 2832 would reduce spending and increase offsetting receipts (a credit against direct spending) for unemployment compensation by:

- Requiring states to assess penalties in cases where overpayments of benefits resulted from fraud;
- Requiring states to charge employers in cases where they failed to respond in a timely manner to a request for information and that lack of response led to an overpayment; and

- Clarifying that the definition of a 'newly hired' employee includes individuals who had been previously employed by an employer, but who had been separated from such employment by at least 60 consecutive days.

Based on information from the Department of Labor regarding state laws and reasons for benefit overpayments, CBO estimates that enacting those provisions would reduce spending and increase offsetting receipts (both of which would decrease outlays for unemployment compensation), reducing outlays by a total of $669 million over the 2012-2021 period. (Those decreased outlays would, in turn, affect the amount of revenues deposited into states' unemployment trust fund accounts, which are reflected on the federal budget.)

Medicare. The act also would modify the provisions under which the Centers for Medicare and Medicaid Services contracts with independent entities called Quality Improvement Organizations in Medicare. QIOs, generally staffed by health care professionals, review medical care, help beneficiaries with complaints about the quality of care, and implement care improvements. H.R. 2832 would make several changes to the composition and operation of QIOs, and would harmonize QIO contracts with requirements of the Federal Acquisition Regulation. Among those changes are a modification to expand the geographic scope of QIO contracts and a lengthening of the contract period. CBO estimates that those provisions would reduce spending by $330 million over the 2012-2021 period.

Merchandise Processing Fees. For most imported goods, Customs and Border Protection currently collects a fee equal to 0.21 percent of the value of the item. The act would raise the fee to 0.3464 percent for goods imported from October 1, 2011, through November 30, 2015, and would lower the fee to 0.174 percent for goods imported from October 1, 2016, through September 30, 2019. In addition, fees for merchandise entered during the period from October 1 to November 12 in 2012 would have to be paid by September 25, 2012, based on the amount of such fees paid during the same period in 2011. CBO estimates that those provisions would increase offsetting receipts by about $2.4 billion over the 2012-2016 period and by about $1.8 billion over the 2012-2021 period.

Revenues

H.R. 2832 would extend the GSP—retroactively—from January 1, 2011, through July 31, 2013. GSP allows duty-free importation of a wide range of products from 129 countries and territories. Based on the composition of recent imports under the program and CBO's forecast of total imports, CBO estimated the future customs value and an effective tariff rates for those imports under the GSP, yielding a projection of forgone customs duties under H.R. 2832 relative to those expected in the absence of such preferences under current law. CBO estimates that the extension of the trade preferences would reduce revenues from customs duties by $980 million in 2012, including duties paid in 2011 which would be refunded to importers because of the retroactive extension, and $503 million in 2013, net of income and payroll tax offsets.

Other provisions of the act that would affect revenues are the temporary extension and subsequent sunset of provisions related to the HCTC and changes related to unemployment compensation. As discussed above under the heading "Direct Spending," H.R. 2832 would temporarily expand and then sunset provisions related to the HCTC. As a result, revenues related to that credit would be reduced in 2012 (by $16 million), but would increase over the 2012-2021 period by $22 million.

The changes to unemployment compensation would affect revenues by increasing receipts and decreasing outlays from state trust fund accounts. CBO estimates that, because their balances would be higher under provisions of H.R. 2832 than under baseline projections, states would reduce their employment taxes (which are reflected on the federal budget) by $324 million over the 2012-2021 period.

Spending Subject to Appropriation

H.R. 2832 would extend the TAA for Firms program of the Economic Development Administration (EDA) until 2014 and authorize appropriations totaling $36 million over the 2012-2014 period to operate the program. TAA for Firms provides financial assistance to businesses affected by declines in employment and sales to improve their competitiveness. Based on historical spending patterns, CBO estimates that implementing this provision would cost $33 million over the 2012-2016 period, assuming appropriation of the specified amounts.

The act also would authorize the appropriation of $90 million for the TAA for Farmers program for each of fiscal years 2012 and 2013, and $22.5 million for the three-month period beginning on October 1, 2013. TAA for Farmers provides technical and financial assistance to producers of agricultural commodities when the value of those commodities has fallen due to increased imports. CBO estimates that, assuming appropriation of the authorized amounts, this provision would cost $135 million over the 2012-2015 period.

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.

CBO Estimate of Pay-As-You-Go Effects for H.R. 2832, An act to extend the Generalized System of Preferences, and for Other Purposes, as passed by the Senate on September 22, 2011

	By Fiscal Year, in Millions of Dollars											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-2016	2012-2021
NET INCREASE OR DECREASE (-) IN THE DEFICIT												
Statutory Pay-As-You-Go Impact	756	502	-375	-652	-236	73	86	98	-124	-134	-5	-6
Memorandum:												
Changes in Outlays	-240	-16	-372	-656	-256	36	38	45	-179	-192	-1,538	-1,790
Changes in Revenues	-996	-518	3	-4	-20	-37	-48	-53	-55	-58	-1,533	-1,784

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

CBO has determined that the provisions of H.R. 2832 contain no intergovernmental mandates as defined in UMRA. The bill would require states to collect overpayments and assess penalties associated with erroneous payments in their unemployment compensation programs. CBO estimates that those changes would result in lower unemployment taxes in some states. That effect, 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.

IMPACT ON THE PRIVATE SECTOR

H.R. 2832 would impose mandates on importers of most goods and on private entities that provide health insurance for separated workers. CBO estimates that the aggregate cost of private-sector mandates would exceed the threshold established in UMRA ($142 million in 2011, adjusted annually for inflation).

Increase in Merchandise Processing Fees

H.R. 2832 also imposes a mandate on the private sector through an increase in the Merchandise Processing Fee which Customs and Border Protection currently collects on most imported goods. That fee is currently equal to 0.21 percent of the value of an item. This act would increase the fee to 0.3464 percent for goods imported from October 1, 2011, through November 30, 2015, and would lower the fee to 0.174 percent for goods imported from October 1, 2016, through September 30, 2019. In addition, fees for merchandise entering during the October 1-November 12 period in 2012 would have to be paid by September 25, 2012, based on the amount of such fees paid during the same period in 2011. CBO estimates the fees would cost firms an average of $573 million annually over the 2012-2015 period.

Extension of COBRA Benefits for Certain Eligible Individuals

Under current law, the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) requires private-sector employers to continue to provide health insurance coverage to certain individuals who are separated from employment. Most eligible individuals are guaranteed coverage for another 18 or 36 months, depending on the circumstances of their separation. Previously, individuals eligible for trade adjustment assistance and certain Pension Benefit Guarantee Corporation payees were eligible for an extension of such coverage. That extension expired on February 13, 2011. A provision in section 243 of H.R. 2832 would reinstate that extension and keep it in effect through January 1, 2014.

By increasing the duration of coverage required to be provided to separated workers who elect to continue their COBRA coverage, the provision would effectively increase the cost on employers to provide continued coverage. CBO estimates the direct cost of this provision would probably not exceed the threshold established in UMRA because the changes would affect relatively few workers.

ESTIMATE PREPARED BY:

Federal Costs:

TAA for Workers and Unemployment Compensation—Christina Hawley Anthony
TAA for Farmers—David Hull
TAA for Firms—Daniel Hoople
Medicare—Lara Robillard
Merchandise Processing Fees—Mark Grabowicz
GSP—Kalyani Parthasarathy
Health Coverage Tax Credit—Pamela Moomau, Joint Committee on Taxation

Impact on State, Local, and Tribal Governments: Lisa Ramirez-Branum
Impact on the Private Sector: Jimmy Jin

ESTIMATE APPROVED BY:

Peter H. Fontaine
Assistant Director for Budget Analysis