RSC
Republican Study Committee
Rep. Mike Pence (R-IN), Chairman
Sheila Cole, Executive Director
426 Cannon House Office Building
Washington, DC 20515
http://johnshadegg.house.gov/rsc/
ph (202) 226-9717 / fax (202) 226-1633

Legislative Bulletin……………………………….………September 21, 2005

Contents:

Summary of the Bills Under Consideration Today:

Total Number of New Government Programs: 0

Total Cost of Discretionary Authorizations: 0

Effect on Revenue: At least a $6.6 billion revenue reduction over five years

Total Change in Mandatory Spending: 0

Total New State & Local Government Mandates: 0

Total New Private Sector Mandates: 0

Number of *Bills* Without Committee Reports: 1

Number of *Reported* Bills that Don't Cite Specific Clauses of Constitutional Authority: 0

H.R. 3768—Katrina Emergency Tax Relief Act (McCrery)

Order of Business: The bill is scheduled to be considered today, under a motion to suspend the rules and pass the bill. H.R 3768 passed the House last week and was amended by the Senate.

Summary: The main provisions of H.R. 3768, as amended (major noticeable changes in red bold), are as follows:

Relief for Individuals Affected by Hurricane Katrina

- Allows individuals who lived in the disaster area as of August 28, 2005, the option of using their 2004 income to calculate the child credit and the Earned Income Credit on their 2005 tax returns.
- Grants the U.S. Treasury Department the authority to ensure that taxpayers do not lose dependency exemptions or child credits for 2005 **or 2006,** due to temporary relocations.
- Ensures that individuals affected by the hurricane are not taxed on personal debt relief, such as the cancellation of a mortgage, provided before 2007.
- Creates a special, one-year tax deduction for individuals who provide rent-free housing to dislocated persons for at least 60 days: $500 for each dislocated person housed in the individual's principal residence (up to a maximum of $2,000).
- Waives the 10% and $100 floors for personal casualty losses (under current law, individuals who itemize their deductions may deduct personal casualty losses to the extent they exceed 10% of adjusted gross income and a $100 floor.).
- Waives the 10% tax on up to $100,000 of early withdrawals from IRAs and pensions for individuals affected by the hurricane. Distributed amounts could be repaid to the IRA or pension plan over the three-year period following the distribution and receive rollover treatment.
- Increases the limit on loans from pension plans from $50,000 to $100,000.
- Extends from one to two years the Work Opportunity Tax Credit (WOTC) for employers who hire individuals who lived in the disaster area prior to the hurricane. The credit equals 40% of the first $6,000 of wages paid to the employee each year. **Employers located in an area that is eligible for such assistance could claim the WOTC with respect to Hurricane Katrina employees hired over the next two years. Employers located outside of this area could claim the WOTC with respect to Hurricane Katrina employees hired through the end of the 2005 calendar year.**
- **Allows small employers located in a disaster area that is eligible for individual and public assistance under the Stafford Act to claim a tax credit (40% of the first $6,000 of wages paid to the employee between August 28, 2005 and January 1, 2006) through the end of the 2005 calendar year, if they retain an eligible employee on their payroll.**
- Increases to five years the period in which insurance proceeds would be nontaxable if reinvested in replacement property (in the disaster area). Under current law, insurance proceeds are not taxable if they are invested in replacement property within two years (with respect to damaged business property) or four years (with respect to damaged principal residences in presidentially-declared disaster areas).
- Allows all homebuyers—not just first-time homebuyers—to qualify for mortgage revenue bonds to finance low-interest rate mortgages through 2007.
- **Extends the filing and payment deadlines for tax filings (administratively set at January 3, 2006) on excise, employment, income, estate, and gift taxes to February 28, 2006.**

Incentives for Charitable Donations Related to Hurricane Katrina

- Exempts cash donations **to all charities** from the 50% individual income limitation and the phase-out of itemized deductions, if the donation is made before January 2006. (Under current law, individuals can deduct charitable donations up to 50% of their adjusted gross income. Such deductions are further limited by the phase-out of itemized deductions.)
- Waives the 10% corporate income limitation for cash donations related to Hurricane Katrina, if the donation is made before January 2006. (Under current law, corporations can deduct charitable donations up to 10% of their taxable income.)
- Increases the mileage reimbursement rate for individuals for charitable donation deductions from 14 cents per mile to approximately 34 cents per mile. (Under current law, individuals can claim a tax deduction for the costs associated with using a personal vehicle for charitable work.)
- **Extends the current-law food-inventory-donation deduction for C-Corporations to S-corporations, partnerships, and sole proprietors through the end of the 2005 calendar year.**
- **Creates a tax deduction through the end of the 2005 calendar year for donations of educational books to public schools.**

Committee Action: On September 14, 2005, the bill was referred to the Ways & Means Committee, which took no official action on it.

Cost to Taxpayers: The Joint Committee on Taxation estimates that the Senate-amended version of H.R. 3768 would reduce revenues (static estimate) by $3.7 billion in FY2006 and by a net total of $6.6 billion over the FY2006-FY2010 period. NOTE: This estimate does not include the amendments that the House has added on top of the Senate amendments. A future issue of the RSC's "Money Monitor" will include the final revenue estimate.

Does the Bill Expand the Size and Scope of the Federal Government?: No.

Does the Bill Contain Any New State-Government, Local-Government, or Private-Sector Mandates?: No.

Constitutional Authority: Although a committee report citing constitutional authority is unavailable, Article I, Section 8, Clause 1 grants Congress the power to "lay and collect taxes." Furthermore, the 16th Amendment grants Congress the power to "lay and collect taxes on incomes, from whatever source derived."

RSC Staff Contact: Paul S. Teller, paul.teller@mail.house.gov, (202) 226-9718