CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

February 5, 2008

H.R. 5140

Recovery Rebates and Economic Stimulus for the American People Act of 2008

As passed the House of Representatives on January 29, 2008

SUMMARY

H.R. 5140 would provide a tax rebate to individual tax filers who satisfy specific income requirements and special depreciation allowances to businesses. In addition, the act would raise the loan limit for the Federal Housing Administration's (FHA's) single-family program. The Congressional Budget Office and the Joint Committee on Taxation (JCT) estimate that H.R. 5140 would:

- Decrease revenues by $114 billion in 2008 and by a net amount of $82 billion over the 2008-2018 period; and

- Increase direct spending by $32 billion in 2008 and $36 billion over the 2008-2009 period.

In total, those changes would increase budget deficits (or reduce future surpluses) by $146 billion in 2008 and by a net amount of $117 billion over the 2008-2018 period.

CBO also estimates that the bill would result in an increase in offsetting collections of $7 million in 2009, assuming the necessary appropriation action.

CBO has determined that the nontax provisions of H.R. 5140 contain no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 5140 is shown in the following table. The spending effects of this legislation fall within budget functions 370 (commerce and housing credit) and 800 (general government).

ESTIMATED BUDGET IMPACT OF H.R. 5140, THE RECOVERY REBATES ECONOMIC STIMULUS FOR THE AMERICAN PEOPLE ACT OF 2008, AS PASSED BY THE HOUSE OF REPRESENTATIVES

	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	-69.0	-5.2	0	0	0	0	0	0	0	0	0	-74.1	-74.1
Business Tax Deductions	-44.8	-6.2	11.7	8.8	7.6	5.9	3.8	2.3	1.3	1.0	1.1	-17.0	-7.5
Total Revenue Changes	-113.8	-11.4	11.7	8.8	7.6	5.9	3.8	2.3	1.3	1.0	1.1	-91.1	-81.6
CHANGES IN DIRECT SPENDING													
Additional Rebates													
Estimated Budget Authority	31.2	3.1	0	0	0	0	0	0	0	0	0	34.4	34.4
Estimated Outlays	31.2	3.1	0	0	0	0	0	0	0	0	0	34.4	34.4
Payments to U.S. Territories													
Estimated Budget Authority	0.9	0.3	0	0	0	0	0	0	0	0	0	1.2	1.2
Estimated Outlays	0.9	0.3	0	0	0	0	0	0	0	0	0	1.2	1.2
Administrative Costs													
Estimated Budget Authority	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
Raising Loan Limits for FHA's Single-Family Program [a]													
Estimated Budget Authority	*	0	0	0	0	0	0	0	0	0	0	*	*
Estimated Outlays	*	0	0	0	0	0	0	0	0	0	0	*	*
Total Direct Spending Changes													
Estimated Budget Authority	32.3	3.5	0	0	0	0	0	0	0	0	0	35.8	35.8
Estimated Outlays	32.3	3.5	0	0	0	0	0	0	0	0	0	35.8	35.8

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

Notes: * = between -$50 million and zero; FHA = Federal Housing Administration. Components may not sum to totals because of rounding.

a. In addition, implementing the FHA provision would increase offsetting collections by $7 million in 2009, subject to appropriation action.

BASIS OF ESTIMATE

For this estimate, JCT and CBO assume that H.R. 5140 will be enacted by March 1, 2008, and that spending will follow historical patterns for similar activities.

Revenues

The legislation would decrease revenues through tax rebates for individuals and tax deductions for businesses. CBO and JCT estimate that H.R. 5140 would decrease revenues by $114 billion in 2008, $91 billion over the 2008-2013 period, and $82 billion over the 2008-2018 period.

Rebates for Individuals. H.R. 5140 would provide rebates to certain persons filing individual and joint tax returns for taxable years 2007 or 2008. For individuals with at least $3,000 of earned income or a positive income tax liability in either of those years, such rebates would be between $300 and $600. For couples filing joint tax returns, those rebates would total between $600 and $1,200. Additionally, individuals who are eligible for rebates also would receive a $300 tax credit for each child living in their household that would qualify for the existing child tax credit under current law.

The amount of the aggregate rebate, including the child tax credit, would begin to be phased out for individuals with an adjusted gross income exceeding a certain threshold. Those thresholds are $75,000 and $150,000 for taxpayers filing individual and joint tax returns respectively. Those provisions also would affect direct spending, as discussed in the following section. JCT estimates that the rebates for individuals would reduce revenues by about $69 billion in 2008 and $5 billion in 2009.

Business Tax Deductions. The act includes two provisions that would enable businesses to take additional deductions for accelerated depreciation and immediate expensing of capital purchases. JCT estimates that those provisions would have a net cost of $7.5 billion over the 2008-2018 period. 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. CBO and JCT estimate that revenue losses totaling $51 billion would occur in fiscal years 2008 and 2009, and revenue increases of $43.5 billion would occur over the 2010-2018 period.

The first such provision would allow a business to partially expense (immediately deduct from 2008 taxable income) an additional 50 percent of its investment in certain equipment made in taxable year 2008. In subsequent years, the remaining value of the property would be subject to depreciation rules under current law.

The second business tax 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 taxable 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. H.R. 5140 would increase the deduction amount allowed for taxable year 2008 and the phaseout threshold to $250,000 and $800,000, respectively.

Direct Spending

H.R. 5140 would increase direct spending because some of the legislation's income-tax rebates would be recorded on the budget as spending and because the legislation provides funding for the administrative costs of implementing its provisions. CBO and JCT estimate those provisions would increase direct spending by $32.3 billion in 2008 and $3.5 billion in 2009.

Additional Rebates. Under the bill, some individuals who would receive a rebate pay no income taxes, or the rebate would exceed the amount of the income taxes they do pay. Rebates that exceed an individual's income-tax liability would be classified in the budget as direct spending. As a result, JCT estimates that the rebate provisions would increase direct spending by $34.4 billion over the 2008-2009 period (with no effects after 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 described above). 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 H.R. 5140, 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 $0.9 billion in 2008 and $0.3 billion in 2009.

Administrative Costs. Section 101 would appropriate $251 million for the Internal Revenue Service and Financial Management Service to implement the tax provisions of H.R. 5140. Based on information from the Internal Revenue Service and the agency's historical spending patterns for similar activities, CBO estimates that this provision would increase direct spending by $200 million in 2008 and by $51 million in 2009.

Raising Loan Limits for FHA's Single-Family Program. Section 202 would raise FHA's loan limit—the dollar amount of a mortgage that FHA can insure—for its single-family program from 87 percent of the conforming loan amount to as high as 175 percent of the conforming loan limit in certain geographic regions where the cost of housing is very high. (The conforming loan amount is the annual limit on the size of a mortgage that the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation can purchase or guarantee.) Effectively, this would be a change from insuring loans of up to $362,790 today to insuring loans of up to $729,750 in certain parts of the country. In less expensive markets, the limit would be raised from 48 percent to 65 percent of the conforming loan limit—a change from loan guarantees of up to $200,160 to loan guarantees of up to $271,050 under the act. Additionally, FHA would have the authority to raise those loan limits by up to an additional $100,000 if market conditions warrant such increases. Those provisions would sunset on December 31, 2008.

CBO estimates that implementing those increased loan limits could result in about $10 billion in additional FHA loan guarantees through December 31, 2008. Loans with higher loan-to-value ratios for larger amounts are often more susceptible to an economic downturn in which many homeowners experience a decline in the value of their home or a slower rate of price appreciation. Consequently, some of those loans carry higher risks of default. CBO expects that FHA would charge such borrowers higher fees (up to the maximum level allowed) to ensure that the net cost of the single-family loan guarantee program remains zero during the next few years. Thus, we estimate that raising the loan limits would result in no additional cost to FHA.

The Government National Mortgage Association (GNMA) is responsible for guaranteeing securities backed by pools of mortgages that are insured by FHA. In exchange for a fee charged to lenders or issuers of the securities, GNMA guarantees the timely payments of scheduled principal and interest due on the pooled mortgages that back those securities. Because, under credit reform procedures, the value of the fees collected by GNMA is estimated to exceed the cost of loan defaults in each year, the Administration estimates that the GNMA Mortgage-Backed Securities (MBS) program will have a subsidy rate of -0.21 percent in 2008, resulting in the net collection of receipts to the federal government. CBO also assumes the same subsidy rate for 2009.

Because most FHA single-family loan guarantees are included in this MBS program, CBO estimates that raising the FHA loan limit would result in additional collections to GNMA of about $21 million over the 2008-2009 period. Of that amount, $14 million would be recorded as savings in direct spending because the appropriation for GNMA's commitment authority for 2008 has been enacted. The remaining $7 million would be recorded as offsetting collections, subject to appropriation of commitment authority for the GNMA MBS program in 2009.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

CBO has determined that the nontax provisions of H.R. 5140 (portions of title I and all of title II) contain no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

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