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BAUCUS-GRASSLEY TAX MEASURES FOR HOMEOWNERS, HOMEBUYERS WIN PASSAGE AS SENATE ACTS ON HOUSING BILL

Bipartisan Finance tax package strengthens economy with property tax deduction for America's homeowners, increased financing for first-time homebuyers

Washington, DC – Senate Finance Committee Chairman Max Baucus (D-Mont.) and Ranking Member Chuck Grassley (R-Iowa) today won Senate passage, by a vote of 63-5, of a package of tax measures in the housing bill, H.R. 3221. A procedural vote yesterday in support of this bill passed 84-12. The bill was crafted in cooperation with the Senate Banking Committee and includes important tax credits and incentives for property owners and first-time homebuyers. The Baucus-Grassley tax measures, which total approximately $14 billion over 10 years, would create an additional standard deduction for property taxes for homeowners who do not itemize their federal taxes, provide an $8,000 refundable, repayable tax credit that will help first time home buyers purchase homes and reduce the existing stock of unoccupied housing, and increase funding for mortgage revenue bonds, which will help homeowners and buyers obtain affordable loans. Also included is a provision to increase the amount of Federal low-income housing tax credits (LIHTC).

"Times are tough right now for families and homeowners and today we rolled up our sleeves, put our differences aside and passed practical, fiscally sound tax solutions to help millions of working Americans," said Baucus. **"Whether it's a standard deduction for property taxes, refinancing subprime loans, or help to relieve the glut of vacant homes on the market, these tax provisions will help keep property values up and keep folks in their homes. The standard property tax deduction, in particular, will bring tax relief to tens of millions of American homeowners who currently don't itemize on their Federal taxes, and that's a win for working families."**

"These tax initiatives are designed to complement the provisions in the housing bill to help Americans who are losing their homes in foreclosures," Grassley said. **"The tax provisions work to bring stability to the housing marketplace for every homeowner by reducing the number of homes that are for sale and unoccupied. This package would help increase the availability of affordable rental housing for lower-income Americans and encourage first-time home purchases. The legislation also would provide immediately available tax-related assistance for taxpayers who've lost homes in natural disasters, including the floods and tornadoes in Iowa during the last month."**

Provisions to offset the cost of this important tax relief include a condition that banks provide information returns reporting annual credit card sales to the IRS and to merchants, a provision that requires homeowners to pay taxes on gains made from the sale of a second home to reflect the portion of time the home was used as a vacation or rental property, and enhancements to Internal Revenue Service (IRS) penalties on companies and individuals that fail to correctly report or neglect to timely file certain tax documents required by the IRS.

A complete summary of the tax provisions follows here:

Curbing the Rising Costs of Owning a Home

Non-itemizer property tax deduction. This provision would make tax relief available to all American homeowners, whether or not they itemize on their tax returns. Present law allows a taxpayer who itemizes to deduct State and local property taxes from Federal income. Non-itemizers claim the standard deduction (for example in 2007, $10,700 for joint filers or $5,350 for individuals). The bill provides an additional standard deduction, $500 deduction for single filers and a $1,000 deduction for joint filers, for non-itemizers who pay State and local property taxes for one year (tax year 2008). The provision will sunset on January 1, 2009. *The estimated cost of this proposal is $1.537 billion over ten years.*

Reducing Excess Supply in the Housing Market

Refundable first-time homebuyer credit. The bill includes a refundable tax credit that is equivalent to an interest-free loan equal to 10 percent of the purchase of the home (up to $8,000) by first-time homebuyers to help reduce the existing stock of unoccupied housing. The provision applies to homes purchased on or after April 9, 2008 and on or before April 1, 2009. The credit begins to phase out for taxpayers with modified adjusted gross income in excess of $75,000 ($150,000 in the case of a joint return). *The estimated cost of this proposal is $4.332 billion over ten years.*

Temporary increase in mortgage revenue bonds. Under current law, there is a national limit on the annual amount of tax-exempt housing bonds that each state may issue. Many states have reached their limit. The bill would increase this national limit in 2008 to allow for the issuance of an additional $11 billion of tax-exempt bonds to provide loans to first-time homebuyers, refinance certain subprime loans, and to finance the construction of residential rental housing. *The estimated cost of this proposal is $1.475 billion over ten years.*

Rebuilding the Low-Income Housing Industry

Temporary increase in low-income housing tax credit. The Low-Income Housing Tax Credit (LIHTC) program helps finance the development of rental housing for low-income families. Under current law, there is a state-by-state limit on the annual amount of Federal low-income housing tax credits that may be allocated by each state. This limitation is currently set at $2.00 for each person residing in the state. The bill would increase this limitation in 2008 and 2009 by an additional 20 cents for each person residing in the state for large population states and increase by 10 percent the small state set-aside. *The estimated cost of this proposal is $1.084 billion over 10 years.*

Low-income housing tax credit simplification. This bill contains numerous proposals to simplify the technical rules relating to the Low-Income Housing Tax Credit (LIHTC). In particular, the bill would: establish a minimum credit rate for non-Federally subsidized buildings (expires 12/31/2013); clarify the circumstances under which a building is considered to be Federally subsidized and the circumstances in which Federal assistance will be taken into account in calculating the LIHTC; provide State housing agencies with greater flexibility to select sites for low-income housing projects and allocate adequate amounts of credit for projects; clarify the rules relating to determinations of current income; provide developers with more time to begin construction of low-income housing projects after the credits have been awarded (one year instead of current law 6 months); reform rules pertaining to sales of low-income housing buildings; allow projects to restrict housing units to individuals who share common characteristics; relax income rules for rural areas; and eliminate technical barriers to rehabilitating low-income housing projects. *The estimated cost of these proposals is $254 million over 10 years.*

One time recycling of multifamily housing bonds and housing bond simplification. The bill contains two proposals to simplify the technical rules relating to tax-exempt housing bonds. Under current law, there is a limitation on the annual amount of tax-exempt housing bonds that each state may issue. In the construction and development of low-income housing projects, states may find that it is most efficient to finance projects using a series of short-term bonds. The bill would allow a one time refunding of bonds reissued within 4 years of the original issuance. The bill would also update the tax-exempt housing bond rules to conform certain aspects of these rules to the low-income housing tax credit rules. *The estimated cost of these proposals is $592 million over 10 years.*

Helping the Residential and Commercial Real Estate Sector

Repeal of AMT limitations on tax-exempt housing bonds, low-income housing credit, and rehabilitation credit. The AMT can increase the cost of implementing housing programs. Under current law, interest on tax-exempt housing bonds is subject to the AMT. This limits the marketability of these bonds and limits the incentive effect of these bonds. Additionally, under current law both low-income housing tax credits and rehabilitation tax credits cannot be taken against the AMT. This limits the incentive effect of these credits. This bill would allow the low-income housing tax credit and the rehabilitation tax credit to be used to offset the AMT and would ensure that interest on tax-exempt housing bonds is not subject to the AMT. *The estimated cost of this proposal is $2.093 billion over ten years.*

Bonds guaranteed by Federal home loan banks eligible for treatment as tax-exempt bonds. Under current law, municipal bonds that are guaranteed by Federal home loan banks cannot qualify as tax-exempt bonds unless the bonds are used to finance housing programs. State and local governments currently face significant costs when issuing tax-exempt municipal bonds to finance state and local projects. The bill would help these municipalities by temporarily allowing bonds that are guaranteed by Federal home loan banks to be eligible for treatment as tax-exempt bonds regardless of whether the bonds are used to finance housing programs. Allowing these bonds to be guaranteed by Federal home loan banks will help State and local governments obtain financing for necessary projects (e.g., constructing roads, repairing bridges, building and renovating schools and hospitals, funding college loans, etc) at a lower cost. *The estimated cost of this proposal is $126 million over ten years.*

Protection of taxpayer Social Security numbers in real estate transactions. Under current law, an individual selling a home is required to provide the purchaser of the home with an affidavit stating, under penalties of perjury, that the seller is not a nonresident alien individual or a foreign corporation (special tax rules apply to sales of real estate by nonresident alien individuals and foreign corporations). This affidavit must contain the seller's Social Security number. In order to protect individuals from identity theft that could occur in connection with the sale of real estate, the bill will allow the seller to provide this affidavit to the business professional responsible for closing the real estate transaction (e.g., an attorney or title company) instead of sending this affidavit to the purchaser. *The estimated cost of this proposal is $20 million over ten years.*

Historic rehabilitation credit for State and local government leased property. Under current law, taxpayers are not eligible for the full amount of the rehabilitation credit if more than 35% of a rehabilitated building is leased to a State or local government. In such a situation, expenditures that are allocable to the portion of the building that is leased by the government will not be counted in calculating the rehabilitation credit. In general, the bill would allow taxpayers to qualify for the full amount of the rehabilitation credit so long as less than 50% of the rehabilitated building is leased to State and local governments or other tax-exempt entities. *The estimated cost of this proposal is $262 million over ten years.*

Disaster mortgage revenue bonds. Under current law, there are limitations on the qualifying uses of mortgage revenue bonds. This bill would expand the qualifying uses of single-family mortgage revenue bonds to victims of Presidentially-declared disaster areas. The proposal would apply to bonds issues after May 1, 2008 and prior to January 1, 2010. *The estimated cost of this proposal is $96 million over ten years.*

REIT modernization. The bill contains a number of provisions to modernize the rules regulating real estate investment trusts (REITs). REITs are subject to complex rules that can limit the ability of these businesses to adjust to changing market conditions and to manage risk. The bill would liberalize these rules by clarifying that REITs can earn foreign currency income associated with real estate activities, increasing the permissible size of REIT investments in taxable REIT subsidiaries, modifying the REIT safe harbor for dealer sales, and extending the special rules for lodging facilities to health care facilities. *The estimated cost of these proposals is $305 million over ten years.*

Addressing Urgent Economic Needs

AMT/R&D credit monetization. Under current law, some taxpayers are unable to utilize the bonus depreciation provision contained in the Economic Stimulus Act of 2008 because they are subject to AMT or are in a loss position. The bill contains a provision, originally offered as an amendment by Senators Stabenow and Voinovich, which allows such taxpayers to receive 20 percent of the value of their old AMT or research and development (R&D) credits to the extent such taxpayers invest in assets that qualify for bonus depreciation. The amount is capped at the lesser of 6 percent of outstanding and unused AMT and R&D credits or $30 million. *The estimated cost of this proposal is $996 million over ten years.*

Extension and expansion of certain GO Zone incentives. The Gulf Opportunity Act of 2005 created a number of tax incentives and bond provisions to rebuild the local and regional economies devastated by hurricanes. This bill contains a number of provisions aimed at providing continued assistance to taxpayers located within the GO Zone. The bill allows taxpayers who claimed a deduction for a casualty loss to a principle residence in the GO Zone in an earlier year and subsequently received a Road Home grant, to amend their earlier year return to reduce the amount of their casualty loss deduction in order to claim the grant tax-free. The amendment can be made penalty and interest-free. The bill also provides a waiver of the deadline on construction of GO Zone property eligible for bonus depreciation. Finally, the bill adds additional counties into the GO Zone for purposes of tax-exempt bond financing. *The estimated cost of these proposals is $1.333 billion over ten years.*

Closing Loopholes, Improving Fiscal Responsibility

Payment card and third party network information reporting. The proposal requires information reporting on payment card and third party network transactions. Payment settlement entities, including merchant acquiring banks and third party settlement organizations, or third party payment facilitators acting on their behalf, will be required to report the annual gross amount of reportable transactions to the IRS and to the participating payee. Reportable transactions include any payment card transaction and any third party network transaction. Participating payees include persons who accept a payment card as payment and online vendors who accept payment from a third party settlement organization in settlement of transactions. A payment card means any card issued pursuant to an agreement or arrangement which provides for standards and mechanisms for settling the transactions. Use of an account number or other indicia associated with a payment card will be treated in the same manner as a payment card. A de minimis exception for transactions of $10,000 or less and 200 transactions or less applies to payments by third party settlement organizations. The proposal applies to returns for calendar years beginning after December 31, 2010. Back-up withholding provisions apply to amounts paid after December 31, 2011. *This proposal is estimated to raise $9.802 billion over ten years.*

Exclusion of gain on sale of a principal residence not to apply to nonqualified use. Gain from the sale or exchange of a principal residence allocated to periods of nonqualified use is not excludable from gross income. A period of nonqualified use means any period (not including any period before January 1, 2009) during which the property is not used by the taxpayer or the taxpayer’s spouse or former spouse as a principal residence (e.g., rental property). The amount of gain allocated to periods of nonqualified use is the total amount of gain multiplied by a fraction the numerator of which is the aggregate periods of nonqualified use during the period the property was owned by the taxpayer and the denominator of which is the period the taxpayer owned the property. *This proposal is estimated to raise $1.394 billion over ten years.*

Increase information return penalties. The proposal (1) increases the penalty for failure to file correct information returns from $50/return to $100/return, raises the calendar year cap from $250,000 to $1.5 million, and increases the penalty in cases of intentional disregard from $100/return to $250/return; and (2) increases the failure to furnish correct payee statements from $50/return to $100/return, raises the calendar year cap from $100,000 to $500,000; and increases the penalty in case of intentional disregard from $100/return to $250/return. This is based on an FY ’09 budget proposal. *This proposal is estimated to raise $347 million over ten years.*

Increase in failure to file penalty for S corporation returns. The failure to file penalty for S corporation returns is increased from $85/shareholder/month up to twelve months to $100/shareholder/month up to twelve months. *This proposal is estimated to raise $146 million over ten years.*

Increase in failure to file penalty for partnership returns. The failure to file penalty for partnership returns is increased from $85/partner/month up to twelve months to $100/partner/month up to twelve months. *This proposal is estimated to raise $197 million over ten years.*

Increase in minimum penalty for failure to file. The minimum penalty for the failure to file a tax return is increased from $135 to $225. *This proposal is estimated to raise $217 million over ten years.*

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