CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 26, 2005

H.R. 3768
Katrina Emergency Tax Relief Act of 2005

As cleared by the Congress on September 21, 2005, and signed by the President on September 23, 2005

SUMMARY

H.R. 3768, enacted as Public Law 109-73, gives tax relief to individuals and businesses affected by Hurricane Katrina, which struck southern Florida on August 25, 2005, and the Gulf Coast of the United States on August 29, 2005. The legislation provides tax relief for individuals and businesses who experienced property damage, creates a number of incentives for charitable giving, and makes numerous other tax law changes. The provisions in the act will generally apply to tax years 2005 and 2006.

The Joint Committee on Taxation (JCT) estimates that enacting H.R. 3768 will reduce federal revenues by $3.2 billion in 2006, by $6.0 billion over the 2006-2010 period, and by $6.0 billion over the 2006-2015 period. In addition, JCT estimates that direct spending will increase by $128 million in 2006 and by $2 million in 2007 as a result of this legislation.

Section 501 of H.R. 3768 designates each provision in this act that causes an effect on receipts, budget authority, or outlays as an emergency requirement pursuant to section 402 of H. Con. Res. 95 (109th Congress). The designation is significant for the purpose of enforcement under the Congressional Budget Act.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3768 is shown in the following table. The spending impact of the legislation falls within budget function 600 (income security).

	By Fiscal Year, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
CHANGES IN REVENUES										
Estimated Revenues	-3,191	-2,561	-193	-20	-18	-14	-7	5	8	12
On-budget	-3,186	-2,561	-193	-20	-18	-14	-7	5	8	12
Off-budget[a]	-5	0	0	0	0	0	0	0	0	0
CHANGES IN DIRECT SPENDING										
Estimated Budget Authority	128	2	0	0	0	0	0	0	0	0
Estimated Outlays	128	2	0	0	0	0	0	0	0	0

SOURCE: Joint Committee on Taxation.

NOTE: Section 501 designates each provision in this act that causes an effect on receipts, budget authority, or outlays as an emergency requirement pursuant to section 402 of H. Con. Res. 95 (109th Congress). The designation is significant for the purpose of enforcement under the Congressional Budget Act.

a. The off-budget effect results from the provision that allows certain taxpayers to delay paying Social Security taxes without incurring interest or penalties until March 2006.

BASIS OF ESTIMATE

Revenues

H.R. 3768 makes a number of tax law changes related to the Hurricane Katrina victims and disaster area. The provisions in the act will generally apply to tax years 2005 and 2006, so most of the revenue effects take place in fiscal years 2006 and 2007. JCT provided all estimates of revenue effects.

The bulk of the revenue losses come from three provisions. First, the act suspends the thresholds on deductibility of personal casualty losses for those that are attributable to Hurricane Katrina. Generally, personal casualty losses can be deducted from taxable income only if they exceed 10 percent of adjusted gross income and a $100 floor. Full deductibility will reduce revenues by an estimated $1.1 billion in 2006 and by $2.4 billion over the 2006-2015 period.

Second, when certain property is damaged, insurance proceeds are not taxable if they are invested in replacement property within specified periods of time. H.R. 3768 extends the replacement periods to five years for property located in the Hurricane Katrina disaster area. JCT estimates that this provision will reduce revenues by $837 million in 2006, by $2.1 billion over the 2006-2010 period, and by $1.8 billion over the 2006-2015 period.

Third, the legislation allows for the temporary suspension of tax limitations on charitable contributions for Hurricane Katrina relief efforts. For contributions made between August 28, 2005, and December 31, 2005, individuals and corporations will be allowed to deduct from their taxable income amounts above their usual ceilings. JCT estimates that this provision will reduce revenues by $819 million in 2006, by $753 million over the 2006-2010 period, and by $871 million over the 2006-2015 period.

Other provisions include making sure that individuals are not taxed on forgiven debt related to Hurricane Katrina, creating special mortgage financing rules for home buyers in the disaster area, and extending the work opportunity tax credit to apply to persons who lived in the disaster area prior to the hurricane. In total, JCT estimates that enacting H.R. 3768 will reduce governmental receipts by $3.2 billion in 2006, by $6.0 billion over the 2006-2010 period, and by $6.0 billion over the 2006-2015 period.

Direct Spending

JCT provided the estimates of outlay effects for H.R. 3768, which all result from refundable tax credits. JCT estimates that H.R. 3768 will increase outlays by $128 million in 2006 and by $2 million in 2007. These effects result from two provisions. First, individuals in the disaster area who lost income due to the hurricane will be allowed to use their 2004 income when calculating their earned income tax credit and child tax credit. JCT estimates that this provision will increase outlays by $123 million in 2006.

Also, for individuals who provide rent-free housing for persons displaced by Hurricane Katrina, the legislation exempts $500 per sponsored person from taxable income, up to $2,000. Most of the estimated budgetary effect is a reduction in revenues. However, JCT estimates that this provision will also increase outlays by $5 million in 2006 and by $2 million in 2007 because some people will get increased amounts of refundable earned income and child tax credits.

ESTIMATE PREPARED BY: Emily Schlect

ESTIMATE APPROVED BY:

G. Thomas Woodward
Assistant Director for Tax Analysis