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Legislative Bulletin……………………………………….………January 29, 2008

Contents:

Summary of the Bill Under Consideration Today:

Total Number of New Government Programs: 0

Total Cost of Discretionary Authorizations: Unknown but relatively minor

Effect on Revenue: $83.8 billion savings to taxpayers over ten years

Total Change in Mandatory Spending: $34.4 billion increase over ten years

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. 5140—Recovery Rebates and Economic Stimulus for the American People Act (*Rep. Pelosi, D-CA*)

Order of Business: The bill is scheduled to be considered on Tuesday, January 29th, under a motion to suspend the rules (i.e. **waive PAYGO** and all other rules) and pass the bill. No amendments are in order.

Summary: H.R. 5140 would include four main provisions aimed at "stimulating" the U.S. economy, as follows:

Checks. The bill would provide checks from the U.S. Treasury to Americans as follows:

- A base amount would be determined by the greater of two options: (a) Income tax liability for tax-year 2007, up to a maximum of $600 for singles and $1,200 for married couples filing jointly; or (b) $300 for singles and $600 for married couples filing jointly, provided the individual or couple earned income (BEFORE including any deductions or credits) of at least $3,000 in 2007 (or had gross income in 2007 greater than the basic standard deduction plus the exemption amount for low-income filers, yielding a net tax liability greater than zero).
- Thus, individuals who owe no income taxes for 2007 could still receive this income tax "rebate" (for a total of $31.2 billion in new spending in FY2008).
- There would be an overall phase-out of these amounts above in 5% increments beginning with those with adjusted gross incomes above $75,000 for singles and $150,000 for married couples filing jointly.
- Anyone qualifying for the base amount above would also receive an additional $300 per child, with no cap on the number of children.
- These one-time checks would be regarded as a credit against a taxpayer's tax liability for 2007.

The Treasury Department would likely distribute the checks in May or June 2008. Americans would not have to apply or file for the checks; they would be calculated automatically. (Estimated revenue and spending implication for FY2008: -$101.1 billion, consisting of $69.9 billion in tax relief—rebates for those who had a tax liability in 2007 greater than their rebates under this bill—and $31.2 billion in new mandatory spending—checks for those who had a tax liability in 2007 less than their rebate under this bill.)

Nonresident aliens would not qualify for the checks above, and all qualifying residents in the possessions of the United States would get checks in the same manner as above, regardless of whether they have a mirror code tax system.

The bill would appropriate $251.13 million for fiscal year 2008 for the Treasury Department to administer the checks.

Section 179 Expensing. The bill would allow employers to fully expense both new and used tangible property valued up to $250,000 in the year it is purchased, up to an overall annual investment limit of $800,000 (at which point a phase-out formula kicks in). This provision would apply for tax-year 2008 and beyond. (Estimated revenue implication for FY2008: -$0.9 billion, consisting only of tax relief.)

Bonus Depreciation**.** The bill would provide for a one-time 50% "bonus" tax deduction on new equipment (see 26 U.S.C. 168(k)) in the year it is placed in service, on property with a depreciation period of 20 years or less. That is, employers could deduct half the value of qualifying property in the first year, instead of a much smaller percentage. This provision would apply for tax-year 2008 and beyond. (Estimated revenue implication for FY2008: -$43.9 billion, consisting only of tax relief.)

Conforming Loan Limits. The bill would increase the conforming loan limits (i.e. the maximum value of loans that may be purchased) for the Government-Sponsored Enterprises (GSEs, such as

Fannie Mae and Freddie Mac) in high-cost areas from $417,000 to the higher of either the current limit or 125% of the applicable area's median price (up to $729,750, or 175% of the current limit). This increase would only apply to mortgages originated from July 1, 2007 to December 31, 2008.

The bill would also increase the loan limits for the Federal Housing Administration (FHA) (i.e. the maximum amount of mortgage insured by the FHA) in high-cost areas from $362,000 to the higher of either the current limit or 125% of the applicable area's median price (up to $633,500, or 175% of the current limit). The Secretary of Housing and Urban Development could also increase, at his will, the FHA's loan limit by an additional $100,000. This provision would apply only to mortgages finalized on or before December 31, 2008. (No cost estimate for this section was available at press time, though CBO informally indicated that any implications for discretionary authorizations, to administer more loans, would be relatively minor.)

NOTE: The bill does **NOT** contain originally proposed language regarding unemployment insurance, transportation infrastructure, food stamps, or Medicaid. However, House Speaker Nancy Pelosi has already indicated that such items would likely be part of some future economic stimulus package, if they are not added onto this legislation by the Senate.

Additional Background:

Section 179. For tax-year 2008, according to the Joint Committee on Taxation, the maximum amount that a taxpayer may expense is $128,000 of the cost of qualifying property placed in service for the taxable year. The $128,000 amount is reduced (but not below zero) by the amount by which the cost of qualifying property placed in service during the taxable year exceeds $510,000. This bill would raise the $128,000 and $510,000 figures to $250,000 and $800,000, respectively.

FHA. The Federal Housing Administration (FHA) was created in 1934 (and became a part of the Department of Housing and Urban Development—HUD—in 1965) to provide mortgage insurance on loans made by FHA-approved lenders throughout the United States and its territories. The FHA insures mortgages on single family, multifamily, and manufactured homes and hospitals. The FHA is reportedly the largest insurer of mortgages in the world, having insured over 34 million properties since its inception. FHA mortgage insurance protects lenders against loss if the homeowner defaults on his mortgage loan.

FHA operates entirely from self-generated income (proceeds from the mortgage insurance paid by homeowners), which is placed in an account that is used to operate the program. The FHA currently has 4.8 million insured single family mortgages and 13,000 insured multifamily projects in its portfolio.

GSEs. The Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) are government-sponsored enterprises (GSEs) created to facilitate a *secondary* mortgage market. That is, GSEs are privately owned, congressionally chartered financial institutions created to enhance the availability of credit for home mortgages. Under their charter, they exist to buy mortgages from lenders in the *primary* mortgage market and package them into securities for sale to investors on Wall Street. With the old loans off their books, lenders in the primary market can then make additional loans to consumers.

RSC Bonus Fact: The Heritage Foundation notes that, in light of the assertion that the checks in this legislation are targeted at the less-well-off because such individuals are more likely to spend the checks, two recent studies of the tax rebates in 2001 and 2003 rebate challenge that notion found evidence contrary to this assertion. A Joint Tax Committee report states that the study on the 2001 rebates "found no evidence that low income individuals were more likely to spend their rebate." A Federal Reserve Board study found that households with an income of more than $100,000 were more likely than households with less than $30,000 to spend the 2003 child tax credit rebate or to spend more of the reduced tax withholdings in a paycheck. Read more here: http://www.heritage.org/Research/Economy/wm1778.cfm.

Committee Action: On January 28, 2008, the bill was referred to the Committees on Ways & Means and on Financial Services, neither of which took subsequent official action.

Possible Conservative Concerns: Some conservatives may have the following concerns with this legislation:

Rebates Misconstrued. The central feature of this legislation, the checks being sent to Americans are being portrayed as "rebates," when for many Americans they are just federal hand-outs. It is estimated that about $30 billion of the "rebates" will go to people who had no income tax liability in 2007. This tax "refundability" is merely mandatory spending through the tax code.

Rebates Misdirected. As noted above, the checks are targeted to less-well-off Americans, presumably because they will spend their checks faster than would more-well-off Americans. However, the Joint Committee on Taxation and the Federal Reserve Board studies cited above have found that such hopes for past "rebates" did not prove true.

Rebates' Effectiveness Overstated. Entities such as the Heritage Foundation and the Cato Institute have noted that the impact of sending checks to Americans in the hopes that they will use them to "stimulate" the economy has been exaggerated. Very often, Americans use such unexpected money to pay off existing credit card debt (rather than generate new spending). Additionally, Americans may take the message coming from Washington, that the economy is not good and getting worse, as a signal that putting the newfound money in a low-risk place, like a checking account, or even under the mattress, might be the more prudent thing to do than to spend it.

Expanding the Federal Role in Housing. Expanding the FHA and GSE conforming loan limits would both expand the federal role in housing (something that conservatives have opposed for years) while making it easier for certain people to get mortgages that they technically cannot afford (which is supposedly the source of much of the current economic woe).

Process. This bill is arguably one of the most significant bills that will be considered by the House all year, one that will likely impact hundreds of millions of Americans. Yet, the bill is being brought to the House floor on suspension, without hearings or mark-up in committee, with short debate time, no opportunity for amendment, and less then 24 hours to read and study the bill text.

Not Far Enough. While many conservatives appreciate the expensing provisions of this legislation, many conservatives feel that this legislation, including the expensing section, did not go far enough to truly unleash the shackles on the American economy. For example, the Section 179 expensing opportunities remain capped, and even the tax relief in the bill is not permanent. As a result of this uncertainty inserted into the marketplace (because it is not clear whether such tax relief would eventually be extended beyond one year), it becomes difficult for job-creators to make business decisions for the future.

Dozens of conservatives have thrown their support behind the RSC's Economic Growth Act (H.R. 5109), a package of longer-term, more robust economic incentives that would apply immediately and fuel widespread, sustained economic growth. Learn more here: http://www.house.gov/hensarling/rsc/doc/012308_econgrowthact_rsc.doc.

Administration Position: The Statement of Administration Policy (SAP) for this bill, in its entirety, is as follows:

> The Administration strongly supports House passage of H.R. 5140, the bipartisan economic growth compromise, without amendment. This legislation meets the criteria set out by the Administration that an economic growth package be large enough to make a difference, immediate in its impact, broad-based, temporary, and based on tax relief rather than government spending programs. The Administration commends the House for taking swift, decisive bipartisan action to improve the Nation's near-term economic outlook.

Cost to Taxpayers: The Joint Committee in Taxation (JCT) estimates that the bill would have the following revenue/outlay implications:

FY2008: -$145.9 billion ($114.7 billion in tax relief plus $31.2 billion in mandatory spending)
FY2008-FY2012: -$132.7 billion ($98.3 billion in tax relief plus $34.4 billion in mandatory spending)
FY2008-FY2017: -$118.2 billion ($83.8 billion in tax relief plus $34.4 billion in mandatory spending)

NOTE: These figures do not align perfectly with the aggregates in the JCT grid because JCT provides six-year and eleven-year scores, for the purposes of PAYGO. RSC staff has calculated the five-year and ten-year scores for consistency with other scores from other bills.

The bill would appropriate $251.13 million for fiscal year 2008 for the Treasury Department to administer the checks.

Although a formal CBO cost estimate for the housing section of the bill was not available at press time, CBO informally indicated to RSC staff that any implications for discretionary authorizations, to administer more loans, would be relatively minor.

Does the Bill Expand the Size and Scope of the Federal Government?: Yes, the bill would expand the federal role in housing.

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

Does the Bill Comply with House Rules Regarding Earmarks/Limited Tax Benefits/Limited Tariff Benefits?: Though the bill contains no earmarks, and there is no accompanying committee report, the earmarks rule (House Rule XXI, Clause 9(a)) does not apply, by definition, to legislation considered under suspension of the rules.

Constitutional Authority: A committee report citing constitutional authority is unavailable.

Outside Organizations: The National Taxpayers Union opposes this legislation, citing "sham" rebates, while Americans for Tax Reform "reluctantly supports" the legislation, citing the business deductions sections.

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