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Legislative Bulletin……………………………………….………February 7, 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: About $40 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—Senate-Amended: Recovery Rebates and Economic Stimulus for the American People Act (*Rep. Pelosi, D-CA*)

Order of Business: On January 29, 2008, the House passed H.R. 5140 by a vote of 385-35-1. Moments ago, the Senate passed the bill with an amendment by a vote of 81-16. The Senate-amended bill is rumored to be considered on the House floor later tonight (though it could also be tomorrow), reportedly subject to a unanimous consent request that will waive all points of order (including **PAYGO**) and prohibit any amendment.

Summary, as amended by the Senate: The amendments made by the Senate are indicated below in **red-bold**. All other text indicates provisions that were in the House-passed bill and are retained in the Senate-amended bill.

H.R. 5140 would include several provisions supposedly 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 reported total of about $40 billion in new spending in FY2008).
- **Social Security payments and payments to disabled veterans and their widows would count as income for the purposes of the $3,000 earned income test above.**
- 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.
- **A valid Social Security number would be required for each citizen receiving the base payment and for each child on whom the $300 bonus is claimed. The bill would explicitly allow the IRS to deny a payment based on the failure to provide the required Social Security numbers (including children's) on tax returns for 2007. The provision of just a taxpayer ID number without a Social Security number would be sufficient for the denial of a payment.**
- These one-time checks would be regarded as a credit against a taxpayer's tax liability for 2007. **The payments under this bill would be subject to the IRS' math error authority, which allows the collection of additional taxes based on math errors discovered on tax returns.**
- **Payments would not count as income or resources for the purpose of qualifying for means-tested federal benefits or for state or local benefits financed at least somewhat by federal funds.**

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: about -$110.0 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 about $40 billion in new mandatory spending—checks for those who had a tax liability in 2007 less than their rebate under this bill.)

Nonresident aliens **(and anyone without a valid Social Security number, including those with JUST a taxpayer ID)** 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 such possessions have a mirror code tax system. **The bill would prevent residents of the possessions from getting two payments (one from the possession and one on account of their Social Security or veterans benefits).**

The bill would immediately appropriate ~~$251.13~~ **$266.31** million for fiscal year 2008 for the Treasury Department to administer the checks, **as well as $31.0 million for the Social Security Administration to help seniors get the necessary information to file a tax return to qualify for a payment.**

NOTE: The Senate amendments, taken together, would reportedly have the effect of increasing mandatory spending by about $9 billion in FY2008 over the spending in the original House-passed bill.

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 Senate-proposed language regarding unemployment insurance, the Low-Income Home Energy Assistance Program (LIHEAP), energy tax incentives, interest payments to the coal industry, 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.

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 $40 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 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 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 was originally 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. The Senate-amended bill is similarly being brought to the House floor by unanimous consent, without hearings or mark-up in committee, with little time for debate, no opportunity for amendment, and likely just a few 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 the original House-passed 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.

A SAP for the Senate-amended bill was not available at press time, but reportedly the Administration remains supportive of H.R. 5140.

Cost to Taxpayers: A formal score for the Senate-amended bill was not available at press time.

The revenue/outlay implications of the original House-passed bill were as follows:

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)

Reportedly, the Senate amendments contain $9 billion in new mandatory spending (on top of the figures for the original House-passed bill) minus about $3 billion in offsets from the Social Security number requirement and the math error provision.

The Senate-amended bill would appropriate $297.3 million for fiscal year 2008 for the Treasury Department to administer the checks and the Social Security Administration to help seniors file the proper forms needed to get the payments.

Although CBO will not do a formal cost estimate for the housing section of the bill, 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 point of order will presumably be waived under the unanimous consent agreement.

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

Outside Organizations: No new information on outside-group support was available for the Senate-amended version of the bill. The National Taxpayers Union opposed the original House-passed legislation, citing "sham" rebates, while Americans for Tax Reform "reluctantly support[ed]" the original House-passed legislation, citing the benefits of the business deductions sections.

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