CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

March 23, 2007

H.R. 1562
Katrina Housing Tax Relief Act

As ordered reported by the House Committee on Ways and Means on March 21, 2007

SUMMARY

H.R. 1562 would extend and expand certain tax laws specific to areas affected by Hurricane Katrina, which were enacted in the Gulf Opportunity Zone Act of 2005. The bill would also raise revenue by changing the collection due process procedures for employment taxes.

The Joint Committee on Taxation (JCT) estimates that enacting H.R. 1562 would decrease revenues by $1 million in 2007 and increase revenues by $42 million over the 2007-2012 period and by $4 million over the 2007-2017 period. The Congressional Budget Office estimates that implementing H.R. 1562 would have discretionary costs of less than $500,000 in 2007 and 2008, subject to the availability of appropriated funds.

JCT has determined that the tax provisions of the bill contain no private-sector or intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA). CBO has determined that the non-tax provisions (section 4) contain no private-sector or intergovernmental mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of the bill over the 2007-2017 period is shown in the following table.

	By Fiscal Year, in Millions of Dollars												
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2007-2012	2007-2017
CHANGES IN REVENUES[a]													
Low-Income Housing Provisions	0	0	-61	-97	-53	-10	0	0	0	0	0	-221	-221
Treatment of Repairs for Bond Purposes	-1	-4	-7	-4	0	0	0	0	0	0	0	-16	-16
Modification of Collection Due Process	0	53	54	28	20	17	20	23	26	0	0	172	241
Corporate Estimated Tax Payments	0	0	0	0	0	107	-107	0	0	0	0	107	0
Total Changes	-1	49	-14	-73	-33	114	-87	23	26	0	0	42	4
On-Budget	-1	6	-58	-96	-49	100	-103	4	5	0	0	-97	-191
Off-Budget	0	43	44	23	16	14	16	19	21	0	0	139	195

NOTE: Numbers may not sum to totals because of rounding.

a. Assuming availability of appropriated funds, the cost of the Government Accountability Office report required by the bill would be less than $500,000.

BASIS OF ESTIMATE

For this estimate, JCT assumes that the bill will be enacted by July 1, 2007.

Revenues

The legislation would reduce revenues through two provisions related to areas affected by Hurricane Katrina, and it would also raise revenues by changing collection due process procedures for employment tax liabilities and making other changes. All in all, JCT estimates that the bill would increase revenues by $42 million over the 2007-2012 period and by $4 million over the 2007-2017 period.

First, H.R. 1562 would decrease revenues by extending and expanding low-income housing credit rules that were enacted in response to damage caused by Hurricane Katrina. Generally, low-income housing credits are subject to a cap. In response to Hurricane Katrina, this ceiling amount was increased for the states affected, for the years 2006 through 2008. This bill would extend the higher cap for two years (through December 31, 2010). It would also make changes to the carryover allocation rules that specifies the time by which the housing must be completed to still qualify for the credit. This provision, JCT estimates, would reduce revenues by $221 million over the 2009-2012 period.

Second, the bill would reduce revenues by treating certain repairs in the Gulf Opportunity Zone (composed of areas affected by the hurricane) as qualified rehabilitation for purposes of certain bond rules. In general, qualified mortgage bonds are tax-exempt and must be used for new mortgages. Qualified rehabilitation loans, on the other hand, may be used for replacing existing mortgages. Since the hurricane, states in the Gulf Opportunity Zone have been allowed to issue Gulf Opportunity Zone Bonds for construction and rehabilitation of property. This bill would allow loans financed with qualified mortgage bonds and Gulf Opportunity Zone Bonds to be used for existing mortgages, regardless of certain rules in place for normal qualified rehabilitation loans. JCT estimates that this provision would reduce revenues by $1 million in 2007 and by $16 million over the 2007-2012 period.

H.R. 1562 would raise revenue by changing collection due process procedures with regards to employment tax liabilities. Currently, the Internal Revenue Service (IRS) may seize a taxpayer's property given a federal tax lien. Prior to seizing the property, the IRS must notify taxpayers that they have a right to a collection due process hearing. This bill would enable the IRS to seize property without first having a hearing. JCT estimates that this provision would increase revenues by $172 million over the 2007-2012 period and by $241 million over the 2007-2017 period. Of the revenue gain, JCT estimates that a portion would be off-budget—totaling $195 million over the 2007-2017 period.

Finally, one provision would shift revenues between 2012 and 2013. For corporations with at least $1 billion in assets in 2012, the bill would increase the portion of corporate estimated tax payments due in July through September of that year. This change would increase revenues by $107 million in 2012 and decrease revenues by $107 million in 2013.

Spending Subject to Appropriation

Section 4 would require the Government Accountability Office to report recommendations to the Congress on the use of federal tax incentives provided to state and local governments affected by Hurricanes Katrina, Rita, and Wilma. Based on similar reports, CBO estimates that preparing and distributing the report would cost less than $500,000 in any one fiscal year.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

JCT has determined that the tax provisions of the bill contain no private-sector or intergovernmental mandates as defined in the UMRA. CBO has determined that the non-tax provisions (section 4) contain no private-sector or intergovernmental mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

ESTIMATE PREPARED BY:

Federal Revenues: Emily Schlect
Federal Spending: Matthew Pickford
Impact on State, Local, and Tribal Governments: Melissa Merrell
Impact on the Private Sector: Nabeel Alsalam

ESTIMATE APPROVED BY:

G. Thomas Woodward
Assistant Director for Tax Analysis

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis