United States Senate
Committee on Finance

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Grassley Introduces Legislation to Extend Key Tax Items
to Help With Midwestern Disaster Recovery

WASHINGTON – Sen. Chuck Grassley of Iowa today introduced legislation to extend key disaster relief tax provisions to help Iowa and other Midwestern states that suffered floods and tornadoes last year.

"Rebuilding and recovery are still under way," Grassley said. "Taxpayers should have the chance to use tax benefits intended to help them rebuild their homes and businesses. The tax relief enacted in October 2008 has been in effect for only 14 months. Louisiana is still rebuilding from Hurricane Katrina in 2005. Congress extended tax incentives for that disaster twice, and might even extend them a third time. I'm proposing a second year of the same kind of tax incentives that have been in effect for Hurricane Katrina victims for more than four years. This is especially important when small businesses are struggling to recover, and small businesses create 70 percent of all net new jobs."

Grassley's legislation would extend provisions that let disaster victims with damage to their primary residence tap their assets and access cash by withdrawing money from retirement plans without tax penalties; extend the authorization for Midwestern states to issue tax credit bonds so those states can receive below-market interest rate financing for recovery efforts; remove limitations on deducting casualty losses due to natural disaster; and reduce the tax burden for small and mid-sized businesses by substantially increasing the deductions for the depreciation and expensing of business property.

The legislation would extend key provisions of Grassley's Heartland Disaster Tax Relief Act of 2008, signed into law on October 3, 2008. The measure gave temporary tax relief to people in the Midwestern disaster area, which experienced severe floods and tornadoes in spring 2008. The tax relief is similar to what Congress provided for people impacted by Hurricane Katrina in 2005. Last year's legislation included a $4.6 billion disaster tax relief package exclusively to help Iowa and nine other Midwestern states recover and rebuild from the spring 2008 floods and tornadoes. The legislation included another $3.5 billion for general disaster tax relief for other disasters nationwide, including those in Iowa. Grassley's legislation also would extend key provisions from the national disaster tax relief packaged passed last year. The tax relief is in addition to and separate from disaster recovery funds provided through the appropriations process.

Last month, Grassley introduced a bill giving Midwestern disaster victims more time to benefit from tax relief intended to help them repair or replace their devastated homes. Today's legislation contains the following provisions.

Credits to holders of Midwestern tax credit bonds. This would extend the authorization of Midwestern disaster states to issue debt service tax credit bonds providing credits against federal income tax instead of interest payments, so that these states can provide assistance to communities unable to meet their debt service requirements as a result of the flooding, tornadoes, and severe storms. This extension would be through Jan. 1, 2011.

Expansion of Hope Scholarship and Lifetime Learning Credit. This would extend provisions doubling the Hope Credit dollar amounts so the maximum credit would be $3,000, and doubling the Lifetime Learning Credit percentage from 20% to 40%, for a maximum Lifetime Learning Credit of $4,000 for students attending undergraduate or graduate institutions in the Midwestern disaster area. Room, board, books and fees would also be considered qualified expenses. The extension would be for another year, for 2010.

Qualified Disaster Recovery Assistance Distributions. This would extend the waiver of the 10 percent penalty tax for Midwestern disaster victims who need to tap into their individual retirement account ("IRA") or other tax-favored retirement plan to rebuild and recover, up to $100,000. This extension would be through 2010.

Secretarial Authority to Adjust Taxpayer and Dependency Status for Taxpayers. This would extend the provision giving the Treasury Department the authority to ensure taxpayers do not lose deductions, credits or filing status because of dislocations from the Midwestern disaster.

The following provisions apply to areas declared disaster areas in 2010 by FEMA anywhere in the United States, including the Midwest:

Individual Loss Provision. Last year's disaster relief legislation expanded the casualty loss rules to allow more disaster victims to claim individual property losses. The Grassley bill would further expand the casualty loss rules. For 2009, taxpayers in national disaster areas can only claim a loss that exceeds $500. Grassley's bill would remove the minimum amount of $500 for 2010 and allow taxpayers to take a deduction starting with the first dollar of losses.

Qualified Disaster Expenses. This would extend, through 2010, the law allowing disaster victims to currently deduct demolition, clean-up, repair, and environmental remediation expenses rather having to capitalize these expenses and recover the costs over an extended period of time.

Treatment of Net Operating Losses Attributable to Qualified Disaster Casualty Expenses. This would extend the provision that extended from two to five years the time period for which taxpayers can claim casualty losses or qualified disaster expenses. When taxpayers carry losses back to prior years, they receive a refund of the taxes that they paid in the earlier year. This prompt refund can help them reinvest in their businesses or make ends meet in the aftermath of a disaster. The Grassley bill would extend the provision for one more year, into 2010.

Mortgage Revenue Bonds. This would extend the provision permitting states to issue tax-exempt bonds to finance low-interest loans to taxpayers whose principal residence has been damaged as a result of a disaster. Disaster victims could use these low-interest loans to repair or reconstruct their homes. The Grassley bill would extend the provision for one more year, into 2010.

Additional Depreciation. This would extend the provision that allows businesses that suffered damage as a result of the Presidentially-declared disasters to claim an additional depreciation deduction equal to 50 percent of the cost of new real and personal property investments made in the Presidentially-declared disaster area. The additional deduction applies to purchased computer software, leasehold improvements, certain commercial and residential real estate expenditures and equipment. The Grassley bill would extend the provision for one more year, into 2010.