

Finance Committee Staff Summary

Reid/McConnell/Baucus/Grassley Amendment

February 7, 2008

I. Individual Tax Provisions

The rebate proposal has two components. The first is an amount based on filing status and the second is an increase in the child tax credit.

- ***Part 1: Basic Credit:***
 - Rebate checks will include a base amount determined by the greater of two options: (a) Income tax paid in 2007, with a maximum of \$600 for a single taxpayer and \$1,200 for married couples; or (b) \$300 for an individual and \$600 for a married couple. In order to be eligible for the rebate, the taxpayer must report \$1 of tax liability or \$3000 of qualifying income, defined as the sum of net self employment income, veterans' disability payments (including payments survivors of veterans), and social security benefits.

- ***Part 2: Qualifying Child Credit***
 - If a taxpayer receives \$1 of the income tax rebate and the taxpayer has children, the taxpayer will also receive \$300 per child. This payment is refundable, meaning the recipient is entitled to the full child credit without regard to income tax liability.

The amount of the credit (including both the basic credit and the qualifying child credit) is phased out at a rate of 5% of adjusted gross income beginning at \$75,000 (\$150,000 in the case of joint returns). Residents of the U.S. possessions will also receive the benefit, but the provision denies the basic credit and the qualifying child credit to individuals if the tax return does not include valid identification numbers for all persons listed on the return. A valid identification number is a Social Security Number issued by the Social Security Administration, and does not include a Taxpayer Identification Number issued by the Internal Revenue Service. *This proposal is estimated to cost approximately \$105.7 billion in 2008 and \$115.2 billion over ten years.*

II. Business Tax Provisions

Elective Expensing (Section 179). In lieu of depreciation, small business taxpayers may elect to expense the cost of qualified assets (property) they purchase in the year when the assets are placed in service, within certain limits. Under section 179, small business taxpayers are allowed to expense \$125,000 (indexed for inflation), and the phase-out threshold is \$500,000 (indexed for inflation). Currently in 2008, the expensing limit is

\$128,000 and the phase-out threshold is \$510,000. The proposal increases the expensing limit to \$250,000 and the phase-out to \$800,000 for 2008. The proposal is effective for taxable year 2008. *This proposal is estimated to cost \$900 million in 2008 and \$100 million over ten years.*

Bonus Depreciation. Generally a trade or business must recover the cost of property over a predetermined period of years. This proposal will allow a trade or business to depreciate an additional 50 percent of the cost of an asset acquired and placed into service in 2008 in that year. The types of property eligible for bonus depreciation will be the same as those included in the previous depreciation packages: (1) tangible property that had a recovery period not exceeding 20 years; (2) purchased computer software; (3) water utility property; and (4) qualified leasehold improvement property. The bonus depreciation will be allowed under the alternative minimum tax (AMT). The proposal is effective for calendar year 2008 beginning after the date of first Committee action. *This proposal is estimated to cost \$43.9 billion in 2008 and \$7.4 billion over ten years.*

III. Other Provisions

Increasing Affordable Refinancing Opportunities and Liquidity in Housing Market. The proposal would raise FHA's loan limit - the dollar amount of a mortgage that FHA can insure - for its single-family program from 87 percent of the conforming loan amount to as high as 175 percent (effectively \$362,790 to \$729,750) of the conforming loan limit in certain geographic regions where the cost of housing is very high and from 48 percent to 65 percent (effectively \$200,160 to \$271,050) of the conforming loan limit in less expensive markets. FHA would also have the authority to raise those loan limits by up to an additional \$100,000 if market conditions warrant such increases. To enhance credit availability in the mortgage market, the measure also includes an increase in the loan limits for single family homes from Fannie Mae and Freddie Mac from \$417,000 up to \$729,750 that covers loans made between July 31, 2007, and December 31, 2008. The proposal expires on December 31, 2008. *The proposal is estimated to cost less than \$50 million in 2008 and less than \$50 million over ten years.*