CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

December 22, 2005

H.R. 4440

Gulf Opportunity Zone Act of 2005

As cleared by the Congress on December 16, 2005, and signed by the President on December 21, 2005

SUMMARY

H.R. 4440 provides tax relief to individuals and businesses affected by Hurricane Katrina. It establishes the Gulf Opportunity Zone (and creates several tax benefits for individuals and businesses therein) and it also provides for tax benefits for those affected by Hurricanes Rita and Wilma.

The Joint Committee on Taxation (JCT) estimates that this legislation will decrease federal revenues by $3.9 billion in 2006, by $7.7 billion over the 2006-2010 period, and by $8.6 billion over the 2006-2015 period.

Additionally, JCT estimates that direct spending will increase by $27 million in 2006 and by $13 million in 2007 as a result of this legislation.

Section 501 of H.R. 4440 designates each provision in this act that causes an effect on receipts, budget authority, or outlays as an emergency requirement pursuant to section 402 of H.Con. Res. 95 (109th Congress). The designation is significant for the purpose of enforcement under the Congressional Budget Act.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 4440 is shown in the following table.

	By Fiscal Year, in Millions of Dollars									
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
CHANGES IN REVENUES										
Title I: Establishment of Gulf Opportunity Zone	-3,111	-2,197	-814	-90	-16	-100	-151	-189	-199	-198
Title II: Provisions Related to Hurricanes Rita and Wilma	-859	-673	-16	13	-14	-11	-13	-12	-12	-12
Title III: Other Provisions	50	-1	0	0	0	0	0	0	0	0
Estimated Revenues	-3,920	-2,871	-830	-77	-30	-111	-164	-201	-211	-210
CHANGES IN DIRECT SPENDING										
Estimated Budget Authority	27	13	0	0	0	0	0	0	0	0
Estimated Outlays	27	13	0	0	0	0	0	0	0	0

SOURCE: Joint Committee on Taxation.

NOTE: Section 501 of H.R. 4440 designates each provision in this act that causes an effect on receipts, budget authority, or outlays as an emergency requirement pursuant to section 402 of H.Con. Res. 95 (109th Congress). The designation is significant for the purpose of enforcement under the Congressional Budget Act.

BASIS OF ESTIMATE

Revenues

H.R. 4440 makes a number of changes to tax law in response to Hurricanes Katrina, Rita, and Wilma, each of which hit the United States in the summer or autumn of 2005. The legislation provides tax incentives for businesses and tax-exempt financing for the areas most affected by Hurricane Katrina, and it institutes certain tax reductions for taxpayers displaced or otherwise affected by Hurricanes Rita and Wilma. JCT provided all estimates of the revenue effects.

Title I creates a "Gulf Opportunity Zone" comprising the areas of Louisiana, Mississippi, and Alabama hardest hit by Hurricane Katrina . The tax incentives provided to those areas include additional authority to issue certain tax-preferred bonds; new business investment incentives; and additional low-income housing tax credits. JCT estimates that those provisions will reduce revenues by $3.1 billion in 2006, by $6.2 billion over the 2006-2010 period, and by $7.1 billion over the 2006-2015 period.

Provisions in title I include the following:

- Earlier depreciation deductions for business property put in service before 2008 (for equipment) or 2009 (for structures), at an estimated cost of $2.0 billion over the 2006-2015 period.

- Authority for the states to issue additional tax-exempt private activity bonds, which JCT estimates will reduce revenues by $1.6 billion over the 2006-2015 period.

- Authority for the states to allocate additional low-income housing credits, which JCT estimates will reduce revenues by $1.1 billion over the 2006-2015 period.

- Authority for the states to undertake one additional advance refunding of certain tax-exempt bonds, which JCT estimates will reduce revenues by $741 million from 2006-2015. (H.R. 4377, as passed by the House of Representatives, contained a very similar provision.)

Title II provides tax incentives for taxpayers located in areas hit by Hurricanes Rita and Wilma that were designated for certain types of individual or public assistance. JCT estimates that almost all of the effects on revenue will occur in 2006 and 2007, with revenue losses in those two years of $886 million and $673 million, respectively. JCT estimates that the provisions will reduce revenues by $77 million over the 2008-2015 period.

The bulk of the revenue losses in title II come from a provision that suspends the thresholds on deductibility of personal casualty losses that are attributable to the two hurricanes. Generally, personal casualty losses can be deducted from taxable income only if they exceed 10 percent of adjusted gross income and a $100 floor. JCT estimates that full deductibility will reduce revenues by $528 million in 2006, $611 million in 2007, and $35 million in 2008.

Title III contains other provisions, most of which do not affect revenues. However, revenue gains stem from the provision that modifies the effective date of the suspension of interest and penalties where the Internal Revenue Service fails to contact the taxpayer. JCT estimates that this will increase revenues by $50 million in 2006.

Direct Spending

Section 201 of H.R. 4440 allows certain individuals displaced by Hurricanes Rita and Wilma to use their 2004 income when calculating their earned income tax credit and child tax credit. JCT estimates that this provision will increase outlays by $27 million in 2006.

Also, section 302 allows combat pay to be included in earned income for purposes of the earned income tax credit. JCT estimates that this provision will increase outlays by $13 million in 2007.

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