SUMMARY

H.R. 5140 would provide a tax rebate to individual tax filers who satisfy specific income requirements and special depreciation allowances to businesses. In addition, the act would raise the loan limit for the Federal Housing Administration’s (FHA’s) single-family program. The Congressional Budget Office and the Joint Committee on Taxation (JCT) estimate that H.R. 5140 would:

- Decrease revenues by $114 billion in 2008 and by a net amount of $82 billion over the 2008-2018 period; and

- Increase direct spending by $38 billion in 2008 and $42 billion over the 2008-2009 period.

In total, those changes would increase budget deficits (or reduce future surpluses) by $152 billion in 2008 and by a net amount of $124 billion over the 2008-2018 period.

All of the provisions of H.R. 5140 are designated as emergency requirements pursuant to section 204 of S. Con. Res. 21, the Concurrent Resolution on the Budget for Fiscal Year 2008.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 5140 is shown in the following table. The spending effects of this legislation fall within budget functions 370 (commerce and housing credit) and 800 (general government).

By Fiscal Year, in Billions of Dollars

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<tbody>
<tr>
<td><strong>CHANGES IN REVENUES</strong></td>
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<tr>
<td>Rebates for Individuals</td>
<td>-68.9</td>
<td>-6.1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<td>Business Tax Deductions</td>
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<td>11.7</td>
<td>8.8</td>
<td>7.6</td>
<td>5.9</td>
<td>3.8</td>
<td>2.3</td>
<td>1.3</td>
<td>1.0</td>
<td>1.1</td>
<td>-17.0</td>
<td>-7.5</td>
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<tr>
<td>Total Revenue Changes</td>
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<td>-12.3</td>
<td>11.7</td>
<td>8.8</td>
<td>7.6</td>
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<td>1.3</td>
<td>1.0</td>
<td>1.1</td>
<td>-92.0</td>
<td>-82.5</td>
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**CHANGES IN DIRECT SPENDING (OUTLAYS)**

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<tbody>
<tr>
<td>Rebates for Individuals</td>
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<td>3.6</td>
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<td>0</td>
<td>0</td>
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<td>40.4</td>
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<td>Payments to U.S. Territories</td>
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<td>1.3</td>
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<td>0</td>
<td>0</td>
<td>0.3</td>
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<tr>
<td>Raising Loan Limits for FHA’s Single-Family Program b</td>
<td>*</td>
<td>0</td>
<td>0</td>
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<td>0</td>
<td>0</td>
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<td>0</td>
<td>0</td>
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<tr>
<td>Total Direct Spending Changes a</td>
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<td>4.0</td>
<td>0</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>42.0</td>
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**NET CHANGE IN THE BUDGET DEFICIT OR SURPLUS**

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<tr>
<td>Net Change in the Deficit or Surplus c</td>
<td>151.7</td>
<td>16.3</td>
<td>-11.7</td>
<td>-8.8</td>
<td>-7.6</td>
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<td>-2.3</td>
<td>-1.3</td>
<td>-1.0</td>
<td>-1.1</td>
<td>133.9</td>
<td>124.4</td>
</tr>
</tbody>
</table>

Sources: Congressional Budget Office and the Joint Committee on Taxation.

Notes:

a. For all direct spending changes except administrative costs, budget authority equals outlays. The act provides $0.3 billion in 2008 for administrative costs; CBO expects that funding will be spent over two years.

b. CBO expects that the FHA provision would reduce outlays by $14 million in 2008. (In addition, implementing the FHA provision would increase offsetting collections by $7 million in 2009, subject to appropriation action.)

c. Negative numbers indicate decreases in deficits (or increases in surpluses); positive numbers indicate increases in deficits (or decreases in surpluses).
BASIS OF ESTIMATE

JCT provided most of the estimates for the act’s provisions. Based on input from JCT, CBO estimated outlays for payments to U.S. territories. In addition, CBO estimated the effects of the administrative cost and FHA provisions. Both JCT and CBO assume that spending will follow historical patterns for similar activities.

Revenues

Rebates for Individuals. H.R. 5140 would provide rebates to certain persons filing individual and joint tax returns for tax years 2007 or 2008. For individuals with a positive income-tax liability or a sum total of earned income, Social Security benefits, and veterans disability payments of at least $3,000 in either of those years, such rebates would be between $300 and $600. For couples filing joint tax returns, those rebates would total between $600 and $1,200. Additionally, individuals who are eligible for rebates also would receive a $300 tax credit for each child living in their household that would qualify for the existing child tax credit under current law.

The amount of the aggregate rebate would begin to be phased out for individuals with an adjusted gross income exceeding a certain threshold. Those thresholds are $75,000 and $150,000 for taxpayers filing individual and joint tax returns respectively. Furthermore, the rebates would not be issued to individuals who do not include their Social Security number on their tax return. Those provisions also would affect direct spending, as discussed in the following section. JCT estimates that the rebates for individuals would reduce revenues by $68.9 billion in 2008 and $6.1 billion in 2009.

Business Tax Deductions. The act includes two provisions that would enable businesses to take additional deductions for accelerated depreciation and immediate expensing of capital purchases. JCT estimates that those provisions would have a net cost of $7.5 billion over the 2008-2018 period. Because much of the revenue effect of those provisions results from an acceleration in the timing of deductions, initial revenue losses would be followed by revenue increases in later years. CBO and JCT estimate that revenue losses totaling $51.0 billion would occur in fiscal years 2008 and 2009, and revenue increases of $43.6 billion would occur over the 2010-2018 period.

The first such provision would allow a business to partially expense (immediately deduct from 2008 taxable income) an additional 50 percent of its investment in certain equipment made in tax year 2008. In subsequent years, the remaining value of the property would be subject to depreciation rules under current law.
The second business tax provision would increase the deduction allowed under section 179 of the Internal Revenue Code for the cost of purchasing certain types of property. Under current law, a business is permitted to deduct from taxable income up to $128,000 of the cost of certain types of property purchased in tax year 2008 rather than spreading that deduction out over future years through depreciation expenses. The $128,000 deduction begins to phase out once the business’s property investment expenses exceed $510,000. H.R. 5140 would increase the deduction amount allowed for tax year 2008 and the phaseout threshold to $250,000 and $800,000, respectively.

Direct Spending

Rebates for Individuals. Under the act, some individuals who would receive a rebate pay no income taxes, or the rebate would exceed the amount of the income taxes they do pay. Rebates that exceed an individual’s income-tax liability would be classified in the budget as direct spending. As a result, JCT estimates that the rebate provisions would increase direct spending by $40.4 billion over the 2008-2009 period (with no effects after 2009).

Payments to U.S. Territories. Section 101 would require the Department of the Treasury to provide payments to the United States territories in an amount equal to the loss to each territory from the payment of the individual tax rebate (as discussed earlier under “Revenues”). In general, residents of U.S. territories—Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, and the Northern Mariana Islands—are U.S. citizens but are not required to pay federal income taxes. However, some territories have a tax system that follows the U.S. tax provisions exactly, while others have their own tax system that differs from the U.S. system. Those that follow the U.S. system would, under H.R. 5140, issue rebates to eligible taxpayers. CBO expects that territories with non-mirror tax systems would also meet the requirements of this provision by issuing rebates to their residents. Based on data from those U.S. territories and in consultation with JCT, CBO estimates that providing reimbursements to U.S. territories for individual tax rebates would increase direct spending by $1.0 billion in 2008 and $0.3 billion in 2009.

Administrative Costs. Section 101 would appropriate $0.3 billion for the Internal Revenue Service (IRS), Financial Management Service (FMS), and Social Security Administration (SSA) to implement the provisions of H.R. 5140. Based on information from IRS, FMS, SSA, and historical spending patterns for similar activities, CBO estimates that this provision would increase direct spending by $0.2 billion in 2008 and by $0.1 billion in 2009.

Raising Loan Limits for FHA’s Single-Family Program. Section 202 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 of the conforming loan limit in certain geographic regions where the cost of housing is very high.
(The conforming loan amount is the annual limit on the size of a mortgage that the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation can purchase or guarantee.) Effectively, this would be a change from insuring loans of up to $362,790 today to insuring loans of up to $729,750 in certain parts of the country. In less expensive markets, the limit would be raised from 48 percent to 65 percent of the conforming loan limit—a change from loan guarantees of up to $200,160 to loan guarantees of up to $271,050 under the act. Additionally, FHA would have the authority to raise those loan limits by up to an additional $100,000 if market conditions warrant such increases. Those provisions would sunset on December 31, 2008.

CBO estimates that implementing those increased loan limits could result in about $10 billion in additional FHA loan guarantees through December 31, 2008. Loans with higher loan-to-value ratios for larger amounts are often more susceptible to an economic downturn in which many homeowners experience a decline in the value of their home or a slower rate of price appreciation. Consequently, some of those loans carry higher risks of default. CBO expects that FHA would charge such borrowers higher fees (up to the maximum level allowed) to ensure that the net cost of the single-family loan guarantee program remains zero during the next few years. Thus, we estimate that raising the loan limits would result in no additional cost to FHA.

The Government National Mortgage Association (GNMA) is responsible for guaranteeing securities backed by pools of mortgages that are insured by FHA. In exchange for a fee charged to lenders or issuers of the securities, GNMA guarantees the timely payments of scheduled principal and interest due on the pooled mortgages that back those securities. Because, under credit reform procedures, the value of the fees collected by GNMA is estimated to exceed the cost of loan defaults in each year, the Administration estimates that the GNMA Mortgage-Backed Securities (MBS) program will have a subsidy rate of -0.21 percent in 2008, resulting in the net collection of receipts to the federal government. CBO also assumes the same subsidy rate for 2009.

Because most FHA single-family loan guarantees are included in this MBS program, CBO estimates that raising the FHA loan limit would result in additional collections to GNMA of about $21 million over the 2008-2009 period. Of that amount, $14 million would be recorded as savings in direct spending because the appropriation for GNMA’s commitment authority for 2008 has been enacted. (The remaining $7 million would be recorded as offsetting collections, subject to appropriation of commitment authority for the GNMA MBS program in 2009.)
PREVIOUS CBO ESTIMATES


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Assistant Director for Budget Analysis

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