

H.R. 3996

Temporary Tax Relief Act of 2007

October 30, 2007

I. 2007 AMT RELIEF

Extension of AMT relief for 2007. The bill would extend for one year AMT relief for nonrefundable personal credits and increases the AMT exemption amount to \$66,250 for joint filers and \$44,350 for individuals. *This proposal is estimated to cost \$50.59 billion over 10 years.*

II. ONE-YEAR EXTENDERS

Extenders Primarily Affecting Individuals

Extension of the deduction of State and local general sales taxes. The bill extends for one year the election to take an itemized deduction for State and local general sales taxes in lieu of the itemized deduction permitted for State and local income taxes. *This proposal is estimated to cost \$2.34 billion over 10 years.*

Extension of above-the-line deduction for qualified tuition and related expenses. The bill extends the above-the-line tax deduction for qualified education expenses for one year. For tax year 2007, the maximum deduction was \$4,000 for taxpayers with AGI of \$65,000 or less (\$130,000 for joint returns) or \$2,000 for taxpayers with AGI of \$80,000 or less (\$160,000 for joint returns). *This proposal is estimated to cost \$2.47 billion over 10 years.*

Extension of special rules for regulated investment companies. The bill would for one year extend the tax treatment of interest-related dividends, short-term capital gain dividends, and other special rules applicable to foreign shareholders that invest in regulated investment companies. *This proposal is estimated to cost \$77 million over 10 years.*

Extension of tax on failure to comply with mental health parity requirements applicable to group health plans. The bill extends for one year a \$100 per day excise tax on group health plans that impose limits on mental health benefits that are not imposed on medical and surgical benefits. *This proposal is estimated to cost \$25 million over 10 years.*

Extension of provision encouraging contributions of capital gain real property made for conservation purposes. The bill would extend for one year the increased contribution limits and carryforward period for amounts in excess of these limits for contributions of appreciated real property (including partial interests in real property) for conservation purposes. *This proposal is estimated to cost \$52 million over 10 years.*

Extension of tax-free distributions from individual retirement plans for charitable purposes

The bill would extend for one year the provision that permits tax-free charitable contributions from an Individual Retirement Account (IRA) of up to \$100,000 per taxpayer, per taxable year. *This proposal is estimated to cost \$452 million over 10 years.*

Extension of above-the-line deduction for certain expenses of elementary and secondary school teachers.

The bill extends for one year the \$250 above-the-line tax deduction for teachers and other school professionals for expenses paid or incurred for books, supplies (other than non-athletic supplies for courses of instruction in health or physical education, computer equipment (including related software and services), other equipment, and supplementary materials used by the educator in the classroom for one year (i.e., to expenses paid or incurred in 2008). *This proposal is estimated to cost \$204 million over 10 years.*

Extension of election to include combat pay in earned income for purposes of the earned income credit.

The bill extends for one year the special rules that allow members of the armed services to include their combat pay in their earned income in order to qualify for the earned income tax credit. *This proposal is estimated to cost \$19 million over 10 years.*

Extension of special rules for qualified mortgage bonds for veterans.

The bill extends for one year the special rules that allows veterans to qualify for State-operated, tax-exempt mortgage revenue bond programs to provide lower-income individuals with access to mortgages with lower interest costs without regard to first-time home buyer requirement. *This proposal is estimated to cost \$159 million over 10 years.*

Extension of special rules for distributions from retirement plans to individuals called to active duty.

The bill extends for one year special rules that permit active duty reservists to make penalty-free withdrawals from retirement plans. *This proposal is estimated to cost \$1 million over 10 years.*

Change in refundable child credit.

The bill would increase the eligibility for the refundable child tax credit in 2008. The child tax credit is refundable to the extent of 15 percent of the taxpayer's earned income in excess of approximately \$11,000 as a result of inflation adjustments to the original floor of \$10,000. The bill would reduce this floor to \$8,500 for 2008. *This proposal is estimated to cost \$2.87 billion over 10 years.*

Clarification of allowance for state legislators' expenses away from home.

The bill would clarify the legislature shall be considered to be in session on pro forma days for purposes of the allowance for state legislators' travel expenses away from home. *This proposal is estimated to cost \$4 million over 10 years.*

Extenders Primarily Affecting Businesses

Extension of R&D credit. The bill extends the research credit for one year. *This proposal is estimated to cost \$9 billion over 10 years.*

Extension of Indian employment credit. The bill extends for one year the business tax credit for employers of qualified employees that work and live on or near an Indian reservation. The credit is for wages and health insurance costs paid to qualified employees (up to \$20,000) in the current year over the amount paid in 1993. Wages for which the work opportunity tax credit is available are not qualified wages for the Indian employment tax credit. *This proposal is estimated to cost \$59 million over 10 years.*

Extension of new markets tax credit. The bill extends for one year (through the end of 2009) the new markets tax credit, permitting a \$3.5 billion maximum annual amount of qualified equity investments. *This proposal is estimated to cost \$1.32 billion over 10 years.*

Extension of railroad track maintenance credit. The bill extends for one year the railroad track maintenance credit. The railroad track maintenance credit provides Class II and Class III railroads (e.g., short-line railroads) with a tax credit equal to 50 percent of gross expenditures for maintaining railroad tracks that they own or lease. *This proposal is estimated to cost \$165 million over 10 years.*

Extension of 15-year straight-line cost recovery for qualified leasehold improvements and qualified restaurant improvements. The bill would extend for one year the special 15-year cost recovery period for certain leasehold and qualified restaurant improvements. Absent an extension of this provision, the cost recovery period for these facilities would be 39 years. *This proposal is estimated to cost \$3.47 billion over 10 years.*

Extension of 7-year straight-line cost recovery period for motorsports entertainment complexes. The bill would extend for one year the special 7-year cost recovery period for property used for land improvement and support facilities at motorsports entertainment complexes. Absent an extension of this provision, the cost recovery period for these facilities would be 15 years. *This proposal is estimated to cost \$27 million over 10 years.*

Extension of accelerated depreciation for business property on an Indian reservation. The bill would extend for one year the placed-in-service date for the special depreciation recovery period for qualified Indian reservation property. In general, qualified Indian reservation property is property used predominantly in the active conduct of a trade or business within an Indian reservation, which is not used outside the reservation on a regular basis and was not acquired from a related person. *This proposal is estimated to cost \$148 million over 10 years.*

Extension of expensing of “brownfields” environmental remediation costs. The bill would extend for one year the provision that allows for the expensing of costs associated with cleaning up hazardous (“brownfield”) sites. *This proposal is estimated to cost \$192 million over 10 years.*

Extension of deduction allowable with respect to income attributable to domestic production activities in Puerto Rico. The bill would extend for one year the provision extending the section 199 domestic production activities deduction to activities in Puerto Rico. *This proposal is estimated to cost \$116 million over 10 years.*

Extension of special tax treatment of certain payments to controlling exempt organizations.

The bill would extend for one year the special rules for interest, rents, royalties and annuities received by a tax exempt entity from a controlled entity. *This proposal is estimated to cost \$23 million over 10 years.*

Reauthorization of qualified zone academy bonds (QZABs). The bill allows an additional \$400,000,000 of QZAB issuing authority to State and local governments, which can be used to finance renovations, equipment purchases, developing course material, and training teachers and personnel at a qualified zone academy. In general, a qualified zone academy is any public school (or academic program within a public school) below college level that is located in an empowerment zone or enterprise community and is designed to cooperate with businesses to enhance the academic curriculum and increase graduation and employment rates. QZABs are a form of tax credit bonds which offer the holder a federal tax credit instead of interest. The bill would improve the marketability of these bonds by modifying the current-law arbitrage restrictions. *This proposal is estimated to cost \$165 million over 10 years.*

Extension of tax incentives for investment in the District of Columbia. The bill extends the designation of certain economically depressed census tracts within the District of Columbia as the District of Columbia Enterprise Zone. Businesses and individual residents within this enterprise zone are eligible for special tax incentives. The bill would also extend for one year the \$5,000 first-time homebuyer credit for the District of Columbia. *This proposal is estimated to cost \$158 million over 10 years.*

Extension of American Samoa economic development credit. The bill extends for one year the American Samoa economic development credit. In general, this credit provides certain domestic corporations operating in American Samoa with a possessions tax credit to offset their U.S. tax liability on income earned in American Samoa from active business operations, sales of assets used in a business, or certain investments in American Samoa. *This proposal is estimated to cost \$16 million over 10 years.*

Extension of enhanced charitable deduction for contributions of food inventory. The bill would extend for one year the provision allowing businesses to claim an enhanced deduction for the contribution of food inventory. *This proposal is estimated to cost \$72 million over 10 years.*

Enhanced charitable deduction for contributions of book inventories to public schools. The bill would extend for one year the provision allowing C corporations to claim an enhanced deduction for contributions of book inventory to public schools (kindergarten through grade 12). *This proposal is estimated to cost \$31 million over 10 years.*

Extension of enhanced deduction for corporate contributions of computer equipment for educational purposes. The bill would extend for one year a provision that encourages businesses to contribute computer equipment and software to elementary, secondary, and post-secondary schools by allowing an enhanced deduction for such contributions. *This proposal is estimated to cost \$218 million over 10 years.*

Extension of special rule for S corporations making charitable contributions of property. The bill would extend for one year the provision allowing S corporation shareholders to take into account their pro rata share of charitable deductions even if such deductions would exceed such shareholder's adjusted basis in the S corporation. The bill would also make a technical correction clarifying the application of this provision. *This proposal is estimated to cost \$54 million over 10 years.*

Extension of work opportunity tax credit for Hurricane Katrina employees. The bill would extend for one year the provision that expired in August of this year which allowed employers to claim the work opportunity tax credit for hiring employees who were affected by Hurricane Katrina. *This proposal is estimated to cost \$21 million over 10 years.*

Other Extenders

Extension of disclosures of certain tax return information. The bill would extend for one year the authority for combined employment tax reporting and the current-law authority to disclose return information for purposes of the income-contingent loan repayment program and for purposes of coordination with the Department of Veterans Affairs. The bill would also extend for one year the present-law terrorist activity disclosure provisions. *These proposals are not estimated to have any revenue effect.*

Extension of authority for undercover operations. The bill extends for one year the authorization for the IRS to engage in certain activities related to undercover operations, such as purchasing property, organizing business entities and use the proceeds from an undercover operation to pay additional expenses incurred in the undercover operation. *This proposal is estimated to have a negligible revenue effect.*

Extension of temporary increase in limit on cover over of run excise tax revenues to Puerto Rico and the Virgin islands. The bill extends for one year the provision providing for payment of \$13.25 per gallon to cover over a \$13.50 per proof gallon excise tax on distilled spirits produced in or imported into the United States. *This proposal is estimated to cost \$93 million over 10 years.*

III. MORTGAGE FORGIVENESS DEBT RELIEF

Permanent exclusion from gross income of discharged home mortgage indebtedness. The bill would amend current law, which requires taxpayers to include discharges of mortgage indebtedness as income and to pay tax on this income. The bill would provide a permanent exclusion for discharges of up to two million dollars of indebtedness (on or after January 1, 2007) which is secured by a principal residence and which is incurred in the acquisition, construction, or substantial improvement of the principal residence. Instead of including this amount as income, the basis of the individual's principal residence would be reduced by the amount excluded from income under this bill. *This proposal is estimated to cost approximately \$1.34 billion over 10 years.*

Long-term extension of the deduction for mortgage insurance. The bill extends the deduction for mortgage insurance for seven years (through the end of 2014). Current law limits the deduction for mortgage insurance to payments (including Veterans Administration, Rural Housing Administration, and Federal Housing Administration insurance premiums) made prior to the end of 2007. The bill would provide that payments will qualify for this deduction whenever they are paid so long as the contract is entered into after 2006 and before 2015. *This proposal is estimated to cost \$570 million over the next 10 years.*

Modification of the qualification tests for cooperative housing corporations. The bill would modify the requirements for qualifying for the special rules available to cooperative housing corporations. Under current law, a cooperative housing corporation must meet several requirements, including a requirement that 80 percent or more of the cooperative housing corporation is earned from the corporation's tenant-stockholders. The bill would provide two alternatives to this 80 percent rule (i.e., one based on square footage and another based on cooperative expenditures). These two alternatives will make it easier to qualify as a cooperative housing corporation. *This proposal is estimated to cost \$21 million over 10 years.*

Modification of exclusion of gain on sale of a principal residence. The bill amends the current law exclusion of up to \$250,000 (\$500,000 if married filing a joint return) of gain realized on the sale or exchange of a principal residence. Under current law, the sale of a home will qualify for this exclusion if the home is a taxpayer's principal residence for at least two of the five years ending on the sale or exchange. This exclusion applies even if the home was initially purchased as a second home. Under the bill, if a taxpayer moves their principal residence to a second home, the taxpayer will only be able to utilize this exclusion to the extent that it relates to the period of time when the home was first used as a principal residence. The bill grandfathers use before 2008. *This proposal is estimated to raise \$1.99 billion over 10 years.*

IV. TAX COLLECTION RESPONSIBILITY

Repeal of IRS authority to enter into private debt collection contracts. The provision would repeal the IRS's authority to enter into, renew, or extend contracts with private companies to collect Federal income taxes. The collection of Federal income taxes is an inherently governmental function that should be restricted to IRS employees. The use of private contractors violates the special and confidential relationship between taxpayers and the Federal government, and could jeopardize the privacy of taxpayers, possibly undermining long-term taxpayer compliance. The Committee on Ways and Means heard extensive testimony detailing the predatory and aggressive tactics utilized by private debt collectors. In addition, private debt collection is an extremely inefficient way to collect Federal income taxes. Since the authority to enter into private debt collection contracts was first granted in 2004, the Federal government has spent \$71 million to collect a net of \$20 million in tax receipts. If this money was spent hiring IRS employees, the National Taxpayer Advocate estimates the Federal government could have collected \$1.4 billion. *This provision is estimated to cost \$1.05 billion over 10 years.*

Delay application of withholding requirement on certain governmental payments for goods and services. For payments made after December 31, 2010, the Code requires withholding at a three percent rate on certain payments to persons providing property or services made by Federal, State, and local governments. The withholding is required regardless of whether the government entity making the payment is the recipient of the property or services (those with less than \$100 million in annual expenditures for property or services are exempt). Numerous government entities and taxpayers have raised concerns about the application of this provision. The provision would delay for one year (through December 31, 2011) the application of the three percent withholding requirement on government payments for goods and services in order to provide time for the Treasury Department to study the impact of this provision on government entities and other taxpayers. *This provision is estimated to cost \$44 million over 10 years.*

Clarification of entitlement of U.S. Virgin Islands residents to taxpayer statute of limitations protections. The provision would extend to residents of the U.S. Virgin Islands (USVI) the same administrative and procedural protections that are available to U.S. taxpayers, including a three-year statute of limitations on collections. As a result of a misapplication of present law by the IRS, U.S. citizens who claim to be bona fide USVI residents and who file USVI income tax returns are not allowed to claim the statute of limitations protection that is available to other U.S. citizens who file income tax returns. The provision would correct this misapplication of present law. *This provision is estimated to cost \$38 million over 10 years.*

Revision of tax rules on expatriation. U.S. citizens and long-term U.S. residents are subject to tax on their worldwide income. Taxpayers can avoid taxes by renouncing their U.S. citizenship or terminating their residence. This provision would tighten current law rules to ensure that certain high net-worth taxpayers cannot renounce their U.S. citizenship or terminate their U.S. residence in order to avoid U.S. taxes. Under this provision, high net-worth individuals will be treated as if they sold all of their property for its fair market value on the day before such individual expatriates or terminates their residency. Gain will be recognized to the extent that the aggregate gain recognized exceeds \$600,000 (which will be adjusted for cost of living in the future). *This provision is estimated to raise \$730 million over 10 years.*

Repeal of suspension on certain penalties and interest. Generally, the accrual of interest and penalties is suspended starting 36 months after the filing of a tax return if the IRS has not sent the taxpayer a notice specifically stating the taxpayer's liability and the basis for the liability within the specified period. The provision would repeal the suspension of interest and penalties on certain tax deficiencies where the IRS has notified a taxpayer after 36 months, allowing IRS to fully investigate cases of taxpayer underpayment and to increase compliance with our nation's tax laws. *This provision is estimated to raise \$128 million over 10 years.*

Increase information return penalties. The provision would increase the penalties for failing to file correct returns, failing to furnish correct payee statements, and failing to comply with other information reporting requirements. If a taxpayer fails to file a correct information return before August 1st, current law imposes a \$50 penalty. The bill would increase this penalty to \$100 per information return, with a maximum penalty of \$600,000 per calendar year (\$250,000 in the case of small businesses). Where a taxpayer files a correct information return after the filing date but before 30 days after the filing date, the current law \$15 penalty will be increased to \$25, with a maximum

penalty of \$200,000 per calendar year (\$75,000 in the case of small businesses). Where a taxpayer files a correct information return more than 30 days after the filing date but before August 1st, the penalty for information returns will be increased from \$30 to \$60, with a maximum penalty of \$500,000 (\$150,000 in the case of small businesses). The provision is a scaled-back version of the Treasury Department's proposal to increase penalties on failures to provide information returns. *This provision is estimated to raise \$280 million over 10 years.*

V. MISCELLANEOUS

Clarification of unused merchandise drawback . The bill would clarify that wine of the same color shall be deemed to be commercially interchangeable for purposes of duty drawback. *This proposal has not yet been scored.*