

September 21, 2005

## House and Senate Reach Agreement on Katrina Tax Bill

House and Senate tax writers reached a deal yesterday on a package of tax incentives (H.R. 3768) intended to help provide the victims of Hurricane Katrina cash, housing, and employment. The vote on the bill is expected today.

The bill includes a Disaster Employee Retention Credit that was not originally included in the house bill. That credit provides a 40 percent tax credit for up to \$6,000 in wages paid before the end of the year by employers whose businesses are located in the disaster zone. The retention credit will be available to employers in the disaster area that have fewer than 200 employees. It is expected that this provision will be revisited in the future.

The bill also extends the work opportunity tax credit to employers who hire displaced workers. The WOTC can reduce an employer's tax liability by up to \$2,400 per qualified new worker. The credit is available to employers within the disaster zone for two years and outside the disaster zone until the end of 2005. The original Senate version of the bill would have applied the credit for employers outside the disaster area through 2006 and to employers within the disaster area through 2008.

The bill defers to the House bill with regard to a provision to provide those who house dislocated victims rent-free a \$500 deduction for each person, capped at \$2,000. The deduction would be denied to victims' relatives.

With regard to a Senate provision designed to encourage food donations by businesses, current law C corporation treatment would be extended to passthrough entities, including sole proprietors, for food donations made anywhere in the country through 2005. For book donations, favorable tax treatment would be extended to educational books donated to school districts anywhere in the country, using the Senate language for an "educational book." The tax break would expire at the end of the 2005 calendar year.

This bill is largely directed to assist individuals. We expect to see an economic stimulus package from the House and Senate next week. We are closely monitoring these developments and will continue to provide you with continuous updates.

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