10-7-2005

Selected Provisions of the Katrina Emergency Tax Relief Act of 2005

Neil E. Harl
Iowa State University

Follow this and additional works at: http://lib.dr.iastate.edu/aglawdigest

Part of the Agricultural and Resource Economics Commons, Agricultural Economics Commons, Agriculture Law Commons, and the Public Economics Commons

Recommended Citation
Available at: http://lib.dr.iastate.edu/aglawdigest/vol16/iss19/1

This Article is brought to you for free and open access by the Journals at Iowa State University Digital Repository. It has been accepted for inclusion in Agricultural Law Digest by an authorized editor of Iowa State University Digital Repository. For more information, please contact digrep@iastate.edu.
Selected Provisions of the Katrina Emergency Tax Relief Act of 2005

-by Neil E. Harl


Hurricane Katrina Disaster Area

The Act defines “Hurricane Katrina Disaster Area” as “an area with respect to which a major disaster has been declared by the President before September 14, 2005, under section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act by reason of Hurricane Katrina.”

The term “core disaster area” means that portion of the Hurricane Katrina disaster area determined by the President to warrant individual or individual and public assistance from the federal government under the Act. *Act § 2.*

Withdrawals from Retirement Accounts

“Qualified Hurricane Katrina distributions” up to $100,000 for those with a place of abode in the Hurricane Katrina disaster area are not subject to the 10 percent penalty for early withdrawals of I.R.C. § 72(t) and can be repaid at any time during the three year period after the date the distribution was received. Amounts that are taxable can be spread over three years. *Act § 101.*

Recontribution of Withdrawals for Home Purchases

Withdrawals from retirement plans for construction of a principal residence received after February 28, 2005, and before August 29, 2005, where the home was not built because of Hurricane Katrina, can be repaid during the period beginning on August 25, 2005, and ending on February 28, 2006. *Act § 102*

Loans from Qualified Plans for Relief Relating to Hurricane Katrina

For qualified plans, the $50,000 exception for loans is increased to $100,000 for individuals whose principal place of abode was in the Hurricane Katrina disaster area on August 28, 2005, and sustained economic loss. *Act § 103.*

Work Opportunity Credit

A Hurricane Katrina employee is treated as a member of a targeted group for purposes of the Work Opportunity Tax Credit. *Act § 201.*

* Charles F. Curtiss Distinguished Professor in Agriculture and Emeritus Professor of Economics, Iowa State University; member of the Iowa Bar.
Employee Retention Credit
A credit is allowed of 40 percent of qualified wages up to $6,000 for employees (of 200 or fewer employees) in a core disaster area. Act § 202.

Temporary Suspension of Limit on Charitable Contributions
The contribution limits of I.R.C.§ 170(b), by election, do not apply to contributions for relief efforts related to Hurricane Katrina, during the period of August 28, 2005, through December 31, 2005. Act § 301.

Additional Exemption for Displaced Individuals
The Act allows a $500 reduction in taxable income for each Hurricane Katrina displaced individual not to exceed $2,000. Act § 302.

Increase in Mileage Rate for Charitable Use of Vehicles
For the period of August 25, 2005, and ending on December 31, 2006, the standard mileage rate for charitable driving for providing relief related to Hurricane Katrina is 70 percent of the standard mileage rate for business driving (34 cents per mile). Act § 303.

Mileage Reimbursements to Charitable Volunteers Excluded from Gross Income
Reimbursements for vehicles used to provide relief relating to Hurricane Katrina from August 25, 2005, through December 31, 2006, are excluded from income. Act § 304.

Charitable Deductions for Contributions of Food Inventory
The legislation permanently amends the Internal Revenue Code to allow a charitable contribution deduction, within limits, for contributions of food inventory. Act § 305, amending I.R.C. § 170(e).

Charitable Deduction for Contributions of Book Inventories

Cancellations of Indebtedness
The Act provides that discharges of indebtedness of a natural person whose place of abode was in the Hurricane Katrina disaster area and suffered economic loss or in the core disaster area are not includible in income other than for indebtedness incurred in connection with a trade or business. Act § 401.

Suspension of Limits on Personal Casualty Losses
The $100 deductible on personal casualty losses and the limitation of losses to those above 10 percent of adjusted gross income are suspended for losses on or after August 25, 2005, attributable to Hurricane Katrina. Act § 402.

Extension of Replacement Period
The Act substitutes five years for two years for replacing property in the Hurricane disaster area which is compulsorily or involuntarily converted on or after August 25, 2005, by reason of Hurricane Katrina if substantially all of the use of the replacement property is in the Hurricane Katrina disaster area. Act § 405.

Determining Earned Income
The legislation specifies that if the earned income of a qualified individual (individual whose principal place of abode on August 25, 2005, was located in the core disaster area or the Hurricane Katrina disaster area and was displaced) for the taxable year which includes August 25, 2005, is less than earned income for the preceding taxable year, the earned income of the preceding year can be substituted. Act § 406.

Dependency Status
The Department of the Treasury is given authority to assure that taxpayers do not lose by virtue of temporary relocations by reason of Hurricane Katrina. Act § 407.