

NEW TAX LAW, Part II

Dear clients and friends:

Last month we presented certain key provisions of the 2006 Tax Relief and Health Care Act affecting individuals. The following are some of the key tax provisions in the new law regarding businesses and energy.

(II) PROVISIONS AFFECTING BUSINESSES

(a) Extensions and modifications:

Research tax credit. The research and development (R&D) credit, which expired at the end of 2005 under prior law, is extended to qualified amounts paid or incurred during 2006 and 2007. In addition, for tax years ending after 2006, the new law enhances the credit by (i) increasing the rates of the alternative incremental credit and (ii) creating a new alternative simplified credit that does not use gross receipts as a factor (so that newer businesses can access the credit).

Work opportunity and welfare-to-work tax credits. The work opportunity tax credit (WOTC), which is a credit for wages paid by employers who hire individuals from certain targeted groups, and the welfare-to-work tax credit (WWTC), which is a credit for wages paid by employers who hire long-term family assistance recipients, are extended in their current form for 2006 and combined in 2007. Modifications of the combined credit include expanded eligibility for the WOTC (raised age ceiling for food stamp recipients from 25 to 40), revised eligibility requirements for ex-felons, and extension of the paperwork filing deadline from 21 days to 28 days.

New markets tax credit. The credit is extended for one year (through the end of 2008), permitting a \$3.5 billion maximum annual amount of qualified equity investments.

Tax incentives for investment in the District of Columbia. Three tax benefits available to businesses operating in designated D.C. enterprise zones are extended through 2007—20% wage credit, \$35,000 of additional expensing under Sec. 179, tax-exempt bonds—and zero capital gains for property held five years is extended through 2012 (two year extension).

Indian employment tax credit. The business tax credit available for employers of qualified employees that work and live on or near an Indian reservation is extended through 2007.

Leasehold improvement and restaurant improvement recovery. The accelerated writeoff for certain leasehold improvements and restaurant property (depreciation over 15 years instead of 39 years) is extended through 2007.

Enhanced deduction for corporate contributions of computer equipment for educational purposes. The rule that encourages businesses to contribute computer

technology and equipment to schools by allowing an enhanced deduction for such contributions is extended through 2007.

Go Zone bonus depreciation. The bonus 50% first-year depreciation break that was included in the Gulf Opportunity Zone Act of 2005 is modified by extending the placed-in-service deadline for certain property used in certain highly damaged areas within the Gulf Opportunity Zone.

(b) Other tax relief provisions:

Manufacturing deduction for U.S. businesses with branches in Puerto Rico. The new law allows qualifying U.S. businesses operating as branches in Puerto Rico to claim the Sec. 199 domestic manufacturing deduction, effective for the first two years of the taxpayer beginning after 2005 and before 2008.

Mine safety provisions. The new law provides 50% expensing for certain equipment expenditures related to safety equipment for underground mines located in the United States and provides tax credits for certain mine rescue team training programs, effective for three years through 2008.

(III) PROVISIONS RELATING TO ENERGY

Credit for electricity produced from certain renewable resources. The placed-in-service date for facilities qualifying for the renewable electricity production tax credit is extended for one year through Dec. 31, 2008 for certain facilities (e.g., those producing electricity from wind, closed-loop biomass, open-loop biomass, small irrigation, landfill gas, and trash combustion).

Energy credit for certain business purchases. The 30% business tax credit for the purchase of fuel cell power plants and solar equipment is extended through Dec. 31, 2008.

Credit to holders of clean renewable energy bonds. The clean renewable energy bond (CREB) program is extended through Dec. 31, 2008 and an additional \$400 million of CREB bonding authority is provided.

Credit for new energy efficient homes. The tax credit for builders of new energy efficient homes is extended for one year through Dec. 31, 2008. The credit applies to manufactured homes meeting a 30% energy reduction standard and other homes meeting a 50% standard.

Deduction for energy efficient commercial buildings. The deduction for energy efficient commercial buildings meeting a 50% energy reduction standard is extended for one year, through Dec. 31, 2008.