



For Immediate Release  
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## **BAUCUS-GRASSLEY BILL BLOCKS ALTERNATIVE MINIMUM TAX FOR MORE WORKING FAMILIES, EXTENDS ENERGY INCENTIVES, INDIVIDUAL AND BUSINESS TAX RELIEF**

*Finance leaders seek to protect taxpayers from falling victim to AMT, renew alternative energy boosters, college tuition tax deduction, R&D credit*

*Washington, DC* – Senate Finance Committee Chairman Max Baucus (D-Mont.) and Ranking Member Chuck Grassley (R-Iowa) unveiled legislation today to protect millions of Americans from being hit for the first time by the alternative minimum tax, and to extend tax incentives for renewable energy solutions and tax relief for America’s working families, including the college tuition tax deduction and the state and local sales tax deduction. The AMT was created in 1969 to keep wealthy people from avoiding taxes altogether, but has started to hit working families instead. The Baucus-Grassley measure will prevent the AMT from applying to those who didn’t pay it last year. Extensions of tax provisions that expired at the end of 2007 or are set to expire at the end of 2008 will encourage the production and use of alternative energy, and will translate into real savings on college tuition, state and local sales taxes, and business investments for individuals and companies alike.

**“America needs Congress to act on a host of tax provisions that mean real dollars and cents in their pockets. Whether it’s protecting working families from the alternative minimum tax they were never meant to pay, offering a tax credit for energy-saving appliances, or providing a deduction for a big tuition bill, this is tax relief that means something for folks’ daily lives,”** said Baucus. **“And the business provisions in this bill, from energy to research and development, will ultimately help improve our economy and provide job opportunities for Americans right here at home. These are tax cuts worth extending for all Americans.”**

**“This legislation is very important. If expiring tax provisions are not extended, Americans will be hit with big tax increases, and it will happen without a vote of Congress. The last thing families, small businesses and investors need right now is a tax increase, but that’s what will happen this year and in 2010 if Congress doesn’t act,”** Grassley said. **“The Senate has demonstrated leadership in protecting taxpayers from the unintended consequences of the Alternative Minimum Tax and in extending existing energy tax provisions. It’s time to demonstrate that leadership again.”**

Descriptions of the bill’s elements follow below.

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## ALTERNATIVE MINIMUM TAX PROVISIONS

**Increase the AMT Exemption and Allow the Nonrefundable Personal Credits against AMT.** Currently, a taxpayer receives an exemption of \$33,750 under the AMT and \$45,000 for married couples filing jointly. Current law also does not allow personal credits against the AMT. At the end of last year, H.R. 3996 increased the exemptions to \$44,350 and \$66,250, respectively, and allowed the personal credits against the AMT. The provision expired December 31, 2007. This proposal increases the exemption amounts to \$46,200 (individuals) and \$69,950 (married filing jointly) for 2008. The proposal will also allow the personal credits against the AMT. This will keep families not currently required to pay the alternative minimum tax from being snared by the AMT.

## ENERGY PROVISIONS

**Extension of Renewable Electricity and Refined Coal Production Credit.** Extends through December 31, 2009 the period during which certain facilities may be placed in service for purposes of the Section 45 credit. Extends Indian country coal provision for one year.

**Extension and Modification of Credit for Clean Renewable Energy Bonds.** Adds \$400 million to Clean Renewable Energy Bonds (CREBs) program. Provision is effective for bonds issued after December 31, 2008.

**Extension of Credit for Residential Energy Efficient Property.** Extends for one year the 30% credit for purchase of qualified photovoltaic property and solar water heating property used exclusively for purposes other than heating swimming pools and hot tubs. Extends for one year the 30% credit for the purchase of qualified fuel cell power plants.

**Extension of Business Energy Credit.** Extends the 30% investment tax credit for solar energy property and qualified fuel cell property, as well as the 10% investment tax credit for microturbines for one year (through 2009).

**Extension of Deduction for Energy Efficient Commercial Buildings.** Extends for one year the tax deduction for energy-efficient commercial buildings (through December 31, 2009).

**Extension of Credit for Energy Efficient Appliances.** Extends the tax credit for production of energy-efficient appliances for two years (through December 31, 2009) and readjusts the baseline for the credit.

**Extension Credit for Energy Efficient New Homes.** Extends the tax credit to eligible contractors for the construction of new energy-efficient homes for one year, through December 31, 2009.

**Extension of Credit for Nonbusiness Energy Property.** Extends the tax credit for expenditures to improve the energy efficiency of an existing home for two years (through December 31, 2009).

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## INDIVIDUAL PROVISIONS

**Deduction of State and Local General Sales Taxes.** The American Jobs Creation Act of 2004 (AJCA) provided that a taxpayer may elect to take an itemized deduction for State and local general sales taxes in lieu of the itemized deduction. The provision expired on December 31, 2007. The proposal would extend the provision to the end of 2009.

**Qualified Tuition Deduction.** The 2001 tax cuts bill (the Economic Growth and Tax Relief Reconciliation Act, or EGTRRA) created an above-the-line tax deduction for qualified higher education expenses. 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 deduction expired on December 31, 2007. The proposal would extend the deduction to the end of 2009.

**IRA Rollover Provision.** The tax benefit that allowed taxpayers to make tax free contributions from their IRA plans to qualified charitable organizations expired on December 31, 2007. The proposal would extend the provision to the end of 2009.

**Teacher Expense Deduction.** Teachers are allowed an above-the-line deduction for up to \$250 for educational expenses. This provision expired on December 31, 2007. The proposal extends the deduction to the end of 2009.

**Treatment of certain dividends of RICs.** A RIC may, under certain circumstances, designate all or a portion of a dividend as an “interest-related dividend,” by written notice mailed to its shareholders not later than 60 days after the close of its taxable year. In addition, an interest-related dividend received by a foreign person generally is exempt from U.S. gross-basis tax under sections 871(a), 881, 1441 and 1442 of the Code. The proposal extends the treatment of interest-related dividends, and short-term capital gain dividends received by a RIC to taxable years of the RIC beginning before January 1, 2009.

**Encourage Contributions of Property Interests Made for Conservation Purposes.** Current law allows increased contribution limits and carry forward period for contributions of appreciated real property (including partial interests in real property) for conservation purposes. The provision expired on December 31, 2007. The proposal would extend this provision to the end of 2009.

**Extend the treatment of RICs as “qualified investment entities.”** The proposal would extend the inclusion of a RIC within the definition of a “qualified investment entity” under section 897 of the Code through December 31, 2009, for those situations in which that inclusion expired at the end of 2007.

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**Estate tax look-thru for certain RIC stock held by nonresidents.** Stock owned and held by a nonresident non-citizen generally is treated as property within the United States if the stock was issued by a domestic corporation. Although stock issued by a domestic corporation generally is treated as property within the United States, stock of a RIC that was owned by a nonresident non-citizen is not deemed property within the United States in the proportion that, at the end of the quarter of the RIC's taxable year immediately before a decedent's date of death, the assets held by the RIC are debt obligations, deposits, or other property that would be treated as situated outside the United States if held directly by the estate (the "estate tax look-through rule for RIC stock"). This estate tax look-through rule for RIC stock does not apply to estates of decedents dying after December 31, 2007. The proposal permits the estate tax look-through rule for RIC stock to apply to estates of decedents dying before January 1, 2010.

## **MILITARY PROVISIONS**

**Veteran Mortgage Bonds.** Qualified mortgage bonds may be issued to finance mortgages for veterans who served in active military without regard to the first-time homebuyer requirement. This exception expired on December 31, 2007. The proposal extends the provision to the end of 2009.

**EITC Combat Pay Election.** To maximize the earned income tax credit, a service member may elect to include combat pay as earned income for purposes of EITC. This provision expired on December 31, 2007. The proposal extends the provision to the end of 2009.

**Penalty-Free Withdrawals from IRAs for Reservists.** A reservist to make an early withdrawal from a retirement plan without triggering a 10% early withdrawal tax and a Reservist has two-years from the last day of the active duty period to contribute distributions to an IRA. This exception expired on December 31, 2007. The proposal extends the provision to the end of 2009.

## **BUSINESS PROVISIONS**

**Research and Development Credit.** The law provides a research tax credit equal to 20 percent of the amount by which a taxpayer's qualified research expenses for a taxable year exceed its base amount for that year. The provision expired 12/31/07. The proposal would extend current law to the end of 2009, with the following changes: 1) repeal the alternative incremental research credit in 2008; 2) increase the alternative simplified credit to 14% for 2008, and 3) increase the alternative simplified credit to 16% for 2009.

**15-year Straight-line Cost Recovery for Qualified Leasehold Improvements, Qualified Restaurant Improvements, and Retail Improvements.** In the American Jobs Creation Act of 2004 (AJCA), Congress shortened the cost recovery of certain leasehold improvements and restaurant property from 39 to 15 years for the remainder of 2004 and 2005. This shortened cost recovery period expired December 31, 2007. The proposal would extend the provision to the end of 2009.

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**Exception under Subpart F for Active Financing Income.** The U.S. parent of a foreign subsidiary engaged in a banking, financing, or similar business is eligible for deferral of tax on such subsidiary's earnings if the subsidiary is predominantly engaged in such business and conducts substantial activity with respect to such business in order to qualify for the exceptions. The provision expires December 31, 2008. The proposal would extend the provision to the end of 2009.

**New Markets Tax Credit.** Current law provides a credit for taxpayers who hold a qualified equity investment on a credit allowance date. The provision expires December 31, 2008. The proposal would extend the provision to the end of 2009.

**Expensing of "Brownfields" Environmental Remediation Costs.** The provision that allows for the expensing of costs associated with cleaning up hazardous sites expired on December 31, 2007. This proposal extends present law to the end of 2009.

**Look-thru Treatment of Payments Between Related CFCs under the Foreign Personal Holding Company Rules.** Present law allows deferral for certain payments (interest, dividends, rents and royalties) between commonly controlled foreign corporations (CFC). This provision allows US taxpayers to deploy capital from one CFC to another. The provision expires December 31, 2008. The proposal extends present law to the end of 2009.

**Extend and Expand 50% Tax Credit for Certain Expenditures for Maintaining Railroad Tracks.** The railroad maintenance credit provides Class II and Class III railroads (short-line railroads) with a tax credit equal to 50% of gross expenditures for maintaining railroad tracks that they own or lease. The credit expired on December 31, 2007. The proposal extends the provision to the end of 2009.

**Qualified Zone Academy Bonds.** QZABs help school districts with low-income populations save on interest costs associated with public financing school (below the post-secondary level) renovations and repairs. These benefits can be used for other types of school renovations. QZABs cannot be used for new construction but can be used for the following activities: Renovating and repairing buildings, Investing in Equipment and Up to Date Technology, Developing Challenging Curricula, and Training Quality Teachers. QZABs also encourage schools and businesses to cooperate in innovative ways that expand students' learning opportunities and help schools prepare students with the kinds of skills employers, and our nation, need to compete in the global economy. The QZAB provision expired on December 31, 2007. The proposal would extend this provision to the end of 2009.

**Accelerated Depreciation for Business Property on Indian Reservation.** A special depreciation recovery period applies to qualified Indian reservation property placed in service before January 1, 2008. 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 would extend the placed-in-service date for the special depreciation recovery period for qualified Indian reservation property to the end of 2009.

**Deduction Allowable with Respect to Income Attributable to Domestic Production Activities in Puerto Rico.** The provision to allow a section 199 domestic production activities deduction to activities in Puerto Rico expired on December 31, 2007. The proposal would extend the provision to the end of 2009.

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**Temporary Increase in Limit on Cover Over of Rum Excise Tax Revenues to Puerto Rico and the Virgin Islands.** The present law imposes a \$13.50 per proof gallon excise tax on distilled spirits produced in or imported into the United States. The Code provides a payment to Puerto Rico and the Virgin Islands of the excise tax on rum imported into the United States. The payment is limited to \$10.50 per proof gallon. This was increased to \$13.25 per proof gallon during the period July 1, 1999 through December 31, 2007. The proposal would extend the provision to the end of 2009.

**Special expensing rules for certain film and television productions.** Under current law, a producer can elect to take a single-year deduction of up to \$15 million in production costs incurred in the U.S. If the production costs are over \$15 million, this deduction does not apply. The maximum deduction is increased to \$20 million if the costs are significantly incurred in economically depressed areas. No other depreciation or amortization is allowed for a production for which this deduction is taken. The provision expires December 31, 2008. The proposal would extend the provision to the end of 2009.

**Enhanced Charitable Deduction for Food Inventory.** The provision to allow C-Corporations to claim an enhanced deduction for donations of food expired on December 31, 2007. The enhanced deduction is equal to the lesser of the cost of producing the food item (or basis) plus ½ of the items appreciated value; or twice basis. Non C-Corporations (S-Corporations, Partnerships, and Sole Proprietorships) are limited to claiming a deduction equal to their basis in the food item. In addition – as a way to prevent inventory dumping (abuse) – current law requires that charities use the property: (1) In a manner consistent with their exempt purpose, (2) Not sell the donated food, and (3) Provide the donor with a statement that the property will be used consistently with the charities exempt purpose. The proposal extends the provision to the end of 2009.

**Indian Employment Credit.** The provision that allows a business tax credit for employers of qualified employees that work and live on or near an Indian reservation expired on December 31, 2007. 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. The proposal would extend present law to the end of 2009.

**Basis adjustment to stock of S Corp making charitable contributions of property.** Prior to the Pension Protection Act of 2006, if an S corporation made a contribution to a charity, shareholders reduced the basis in their stock by their pro rata share of the fair market value of the contribution. The Pension Protection Act provided the amount of a shareholder's basis reduction in the S corporation stock will be equal to the shareholder's pro rata share of the adjusted basis of the contributed property. The provision expired December 31, 2007. The proposal would extend the provision to the end of 2009.

**Mental Health Parity.** Group health plans that provide medical/surgical and mental health benefits cannot impose limits on mental health that are not imposed on health. There is a \$100 excise per day for violations. The provision expired December 31, 2007. The proposal extends the provision to the end of 2009.

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**7-Year Recovery Period for Certain Motorsports Racetrack Property.** The provision that allows a special 7-year cost recovery period for property used for land improvement and support facilities at motorsports entertainment complexes expired on December 31, 2007. Absent this provision, the cost recovery period for these facilities would be 15 years. This proposal extends the provision to the end of 2009.

**Permanent Enhanced Charitable Deduction for Contributions of Book Inventory to Schools.** C-corporations receive an enhanced charitable deduction for donations of books to schools, public libraries and literacy programs. This provision expired after December 31, 2007. The proposal extends to the end of 2009 the enhanced charitable deduction for contributions of book inventory to public schools.

**Modification of tax treatment of certain payments to controlling exempt organizations.** In general, interest, rent, royalties, and annuities paid to a tax-exempt organization from a controlled entity are treated as unrelated business income of tax-exempt organizations. The Pension Protection Act of 2006 provided that if a payment to a tax-exempt organization by a controlled entity is less than fair market value, then the payment is excludable from the tax-exempt organization's unrelated business income. The provision expired on December 31, 2007. The proposal would extend the provision to the end of 2009.

**Extension of WOTC for Hurricane Katrina Employees.** The proposal extends for two years 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.

**American Samoa economic development credit.** Certain domestic corporations operating in American Samoa were eligible for a possessions tax credit, which 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. Further, the credit was held to an economic activity-based limit, measuring the credit against wages, depreciation, and American Samoa income taxes. The provision expired December 31, 2007. The proposal extends the provision to the end of 2009.

**Mine rescue team training credit.** Present law provides a credit of up to \$10,000 for the training of mine rescue team members. The provision expires December 31, 2008. The proposal extends the provision to the end of 2009.

**Election to expense advanced mine safety equipment.** Present law provides 50% immediate expensing for qualified underground mine safety equipment (that goes above and beyond current safety equipment requirements), including: (1) communications technology enabling miners to remain in constant contact with an individual above ground; (2) electronic tracking devices that enable an individual above ground to locate miners in the mine at all times; (3) self-contained self-rescue emergency breathing apparatuses carried by the miners and additional oxygen supplies stored in the mine; and (4) mine atmospheric monitoring equipment to measure levels of carbon monoxide, methane, and oxygen in the mine. This provision will encourage mining companies to invest in safety equipment that goes above and beyond current safety equipment requirements. The provision expires December 31, 2008. The proposal extends the provision to the end of 2009.

## TAX ADMINISTRATION PROVISIONS

**Permanent authority for undercover operations.** IRS' authorization to use proceeds it receives from undercover operations to offset necessary expenses incurred in such operations expired on December 31, 2007. Undercover operations are an integral part of IRS efforts to detect and prove noncompliance. The temporary status of this provision creates uncertainty as the IRS plans its undercover efforts from year to year. The proposal permanently authorizes the IRS to return funds collected through undercover operations back into the IRS undercover program.

**Permanent disclosures for Combined Employment Tax Reporting of certain tax return information.** The proposal makes permanent the IRS's authority to disclose employment tax information to the states, which expired on December 31, 2007.

**Extension of Disclosures of Certain Tax Return Information relating to Terrorist Activities.** This proposal extends the authority to make disclosures relating to terrorist activities to the end of 2009.

**Permanent Extension of Disclosure Authority to the Department of Veterans Affairs.** Current law allows the Social Security Administration to disclose tax return information regarding net earnings for purposes of verifying any needs-based pension, dependency and indemnity compensation to parents of a deceased veteran, hospice care, or certain unemployment compensation. This provision expires on September 30, 2008. The proposal would make the present law permanent.

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