

---

## Section 2

# Changes in Law and Regulations

---

**T**he statistics in this report reflect, in general, changes in law and regulations that became effective during the 2005 accounting periods covered. Depending on the accounting period used and effective date of the change in law, the changes may have been fully applicable for some corporations, only partially applicable for others, and not applicable at all for still others.

The information that follows highlights the major changes that substantially affected the comparability of the statistics in this report with those of prior years. More detail on the specific provisions that were changed is contained in Section 5, Explanation of Terms.

### **Biodiesel and Renewable Diesel Fuels Credit**

Corporations can claim this new general business credit for certain:

- Biodiesel produced and sold or used in your trade or business after 2004, and
- Renewable diesel sold or used in your trade or business after 2005.

The fuel may be in a qualified mixture. A small agri-biodiesel producer credit is also available for tax years ending after August 8, 2005. For more information, see Form 8864, Biodiesel and Renewable Diesel Fuels Credit.

### **Domestic Production Activities Deduction**

A corporation may claim a domestic production activities deduction (DPAD) for tax years beginning after 2004. For 2005, the DPAD is generally 3% of the smaller of:

- Qualified production activities income, or
- Taxable income figured without the DPAD.

However, the DPAD generally cannot be more than 50% of the Form W-2 wages paid to employees.

For more information, see Form 8903, Domestic Production Activities Deduction.

### **Electing S Corporation Status**

For tax years beginning after 2004, the maximum number of shareholders that an S corporation may have has increased from 75 to 100.

For purposes of the 100 shareholder limit, members of a family are treated as one shareholder. A family is defined as the common ancestor, the lineal descendants of the common ancestor, and the spouses (or former spouses) of the lineal descendants or the common ancestor. For more information, see Internal Revenue Code section 1361(c)(1).

### **Electronically Filed Form 1120 Corporate Tax Returns**

Certain corporations with total assets of \$50 million or more that filed at least 250 returns a year were required to electronically file Form 1120. Approximately 21,000 corporations selected for inclusion in the SOI sample filed electronically.

### **Investment Credit Expanded**

The investment credit has been expanded to include the section 197 intangibles after August 8, 2005.

- Qualifying advanced coal project credit.
- Qualifying gasification project credit.

For more information, see Form 3468, Investment Credit.

### **One-Time Dividends Received Deduction for Certain Cash Dividends from Controlled Foreign Corporation**

Created under the American Jobs Creation Act of 2004 (IRS section 965) this deduction allows U.S. companies to repatriate earnings from their foreign subsidiaries at a reduced tax rate. IRC section 965 provides that U.S. companies may opt, for one taxable year, to receive an 85% deduction for eligible dividends from their foreign subsidiaries. This deduction may have been taken in Tax Year 2004 or 2005.

## 2005 Corporation Returns – Changes in Law and Regulations

---

### Renewable Electricity, Refined Coal, and Indian Coal Credit

The renewable electricity production credit was extended for qualified facilities placed in service before January 1, 2008. The credit has been expanded to include electricity from qualified hydropower production for facilities placed in service after August 8, 2005. The credit period is increased to 10 years for open-loop biomass (using agricultural livestock waste), geothermal, solar energy, small irrigation power, landfill gas, and trash combustion facilities placed in service after August 8, 2005. See Form 8835, Renewable Electricity, Refined Coal, and Indian Coal Production Credit, for more information.

### Research Credit Expanded

The research credit has been expanded as follows.

- The credit may be claimed on 20% of costs paid or incurred after August 8, 2005, for qualified research undertaken by an energy research consortium.

- The 65% limit on contract research expenses has been increased to 100% if paid or incurred after August 8, 2005, for qualified energy research to an eligible small business, university, or federal laboratory.

For more information, see Form 6765, Credit for Increasing Research Activities.

### Special Depreciation Allowance

The special depreciation allowance and the increased limits on depreciation for passenger automobiles do not apply to most property placed in service in 2005 or later. The maximum section 179 expense deduction for qualified property placed in service in 2005 increased from \$102,000 to \$105,000 (\$140,000 for qualified enterprise zone, renewal community, and New York Liberty Zone property). The threshold cost of section 179 property before limitation also increased from 410,000 to 420,000.