

**National Pork Producers Council
2001 Pork Financial Management Conference
Tax Update on Recent Legislation
Robert N. Childress, CPA
June 18, 2001**

**I. FSC Repeal and Extraterritorial Income Exclusion
Act of 2000 (P.L. 106-519)**

- A. Eliminates the need for separate legal entities to realize the tax savings formerly available under the Foreign Sales Company Regime.**
1. FSC rules replaced with an exclusion from gross income for extraterritorial income that meets the requirements of “qualifying foreign trade income.”
 2. Foreign economic process requirements retained.
 3. Detailed transactional rules regarding “foreign sale and leasing income”, “foreign trading gross receipts”, and “foreign trade income” are provided under the new law.
- B. The amendments made by P.L. 106-519 generally apply to transactions after September 30, 2000.**

II. Community Renewal Tax Relief Act of 2000 (P.L. 106-554)

- A. The Act authorizes up to 40 new areas called “renewal communities” to be designated to receive tax breaks similar to present empowerment zones.**
1. The Act gives relief from taxation of qualified capital gain from the sale of qualified renewal assets held for more than five years.
 2. The Act gives employers doing business in renewal communities a 15% tax credit for qualified wages paid to employees who work and live in renewal communities.
 3. Taxpayers can receive advance deductions for “revitalization expenditures.”
 4. Section 179 expensing increases for renewal community property: \$59,000 in 2002.
 5. Work opportunity credit for 40% of up to \$6,000 for first-year wages paid to high-risk youth employees.

B. Revisions to Empowerment Zone Legislation

1. Nine new empowerment zones may be designated, current zones extended to 2009.
2. 20-Percent Employment Credit for All Empowerment Zones on first \$15,000 of qualified wages paid to employees living and performing work in the zone.
3. Section 179 expensing increased for zone property.
4. Limit increased for tax exempt zone facility bonds.

C. Accounting Changes

1. All section 1250 property placed in service after '98 must be depreciated using straight-line for AMT purposes.

D. Deductions

1. Limits on charitable contributions of computers by C corporations expanded.
2. Election to deduct certain environmental remediation costs extended for two years, requirement that qualified contaminated site be within a targeted area eliminated.

E. Sales and Exchanges

1. Generally treats gain or loss on a "securities futures contract" as a gain or loss from the sale or exchange of property that has the same character as the property to which the contract relates.
2. Deduction permitted for loss carrybacks for Code Sec. 1256 contracts.

F. Tax Exempt Bonds

1. Annual state volume limits increased.

G. Deficiency and Refund Procedures

1. Timing for requesting innocent spouse relief clarified.
2. Small case procedures in Tax Court clarified.
3. Tax Court given authority to enjoin collection actions and jurisdiction over employment tax issues.
4. Joint Committee Refund Review Increased to \$2 Million.

H. IRAs, MSAs, and Qualified Plans

1. Roth IRAs excepted from withholding requirements imposed on regular IRAs.
2. Medical savings account provisions extended through 2002.
3. Lump-sum distribution defined to include distribution of annuity contract from qualified trust or an annuity plan.

III. Economic Growth and Tax Relief Reconciliation Act of 2001

A. Marginal Tax Rate Reductions

1. Individual Income Tax Rate Structure
 - a. New 10% Rate Bracket
 - b. Reduction in Individual Income Tax Rates
 - c. Rate Reduction Credit for 2001
2. Repeal of Itemized Deduction Limit
3. Repeal of Personal Exemption Phase-out

B. Tax Benefits Relating To Children

1. Increase and Expanded Child Tax Credit
2. Extension and Expansion of Adoption Tax Benefits
3. Increase of Dependent Care Tax Credit
4. Tax Credit for Employer-Provided Child Care Facilities

C. Marriage Penalty Relief Provision

1. Standard Deduction Increase for Joint Returns
2. Expansion of the 15-Percent Rate Bracket for Married Couples Filing Joint Returns
3. Marriage Penalty Relief and Simplification Relating to the Earned Income

D. Education Incentives

1. Increase and Modifications to Education IRAs
2. Exclusion for Employer-Provided Educational Assistance
3. Modifications to Student Loan Interest Deduction
4. Deduction for Qualified Higher Education Expenses

E. Estate, Gift, and Generation-Skipping Transfer Tax Provisions

1. Phase-out and Repeal of Estate and Generation-Skipping Transfer Taxes; Increase in Gift Tax Unified Credit Effective Exemption
 - a. Estate and Gift Tax Rates reduced during phase-out – maximum 45%
 - b. Increase in Unified Credit effective exemption - \$3.5 million in 2009
 - c. Estate Tax repealed 2010; Gift Tax Remains Rate = Individual Income Tax Rate
 - d. State Death Tax Credit reduced and repealed
 - e. Modified Carryover Basis regime takes place in 2010
2. Modifications to Generation-Skipping Transfer Tax Rules
3. Expansion of availability of Installment Payment Rules

F. Pension and Individual Retirement Arrangement Provisions

1. Increased contribution limits and catch-up contributions to IRAs
2. Defined contribution plan limits - \$40,000
3. 401(K) contributions - \$15,000 by 2006
4. Contribution Tax Credits – taxpayers under \$30,000 income receive 50% credit
5. Employer deduction for defined contribution plans increased to 25%

G. AMT Relief

H. Miscellaneous Provisions

I. Sunset