
Section 2

Changes in Law and Regulations

The statistics in this report reflect, in general, changes in law and regulations that became effective during the 2007 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.

Work Opportunity Credit

The work opportunity credit has been extended to cover members of targeted groups who begin work for you before September 1, 2011. For tax years beginning after 2006, the credit is allowed against both the regular tax and the AMT. For more information about this credit, see Form 5884, Work Opportunity Credit.

- Long-term family assistance recipients are members of a targeted group (if hired before 2007, see Form 8861, Welfare-to-Work Credit).
- Ex-felons are no longer required to be a member of a low-income family.
- Food stamp recipients must be at least age 18 when hired, but not age 40 or older.

For individuals who begin work for you after May 25, 2007:

- The qualified veterans group is expanded to include veterans entitled to compensation for a service-connected disability and who, during the one-year period ending on the hiring date, were (a) discharged or released from active duty in the U.S. Armed Forces or (b) unemployed for a period or periods totaling at least 6 months. The first-year wages taken into account for these disabled veterans is \$12,000.
- The high-risk youth group has been renamed "designated community residents" and the

age requirement has been changed to include individuals who are at least age 18 but not yet age 40. In addition, residents of rural renewal counties who meet this age requirement have been added to this group.

Domestic Production Activities Deduction Increased

For tax years beginning in 2007, 2008, or 2009, the percentage used to figure the domestic production activities deduction increases to 6%. For more information on this deduction, see Form 8903, Domestic Production Activities Deduction, and its instructions.

Special Depreciation Allowance

The maximum section 179 deduction you can elect for qualified section 179 property you placed in service in 2007 has increased to \$125,000 (\$160,000 for qualified enterprise zone property and qualified renewal community property). This limit is reduced by the amount by which the cost of section 179 property placed in service in the tax year exceeds \$500,000. For qualified section 179 Gulf Opportunity (GO) Zone property, the maximum deduction is higher than the deduction for most other section 179 property. See chapter 2 of Publication 946, How to Depreciate Property.

S Corporations

The following changes affect S corporations.

- The capital gain of an S corporation is not treated as passive investment income. This applies to tax years beginning after May 25, 2007. For details, see Internal Revenue Code section 1362(d)(3).
- Generally, restricted bank director stock is not taken into account as outstanding stock of an S corporation. This applies to tax years beginning after 2006. For details, see Internal Revenue Code section 1361(f).
- An electing small business trust may be able to deduct interest expense on indebtedness it incurred to acquire stock in an S corporation. This applies to tax years beginning after 2006. For details, see Internal Revenue Code section 641(c)(2).

